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The Office of Communications
Annual Report and Accounts
for the period 1 April 2009 to 31 March 2010

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Ofcom is the regulator for the UK communications sector, with responsibilities across television, radio, telecommunications and wireless communications services.

We aim to make sure that people in the UK get the best from their communications services and are protected from unfair trading practices. We are also responsible for ensuring that communications markets remain competitive and that suppliers have incentives to invest in developing communications services.

Ofcom operates under the Communications Act 2003. This Act of Parliament says that Ofcom's general duties should be to further the interests of citizens and of consumers. It also sets out Ofcom's specific responsibilities:

- Ensuring that a wide range of electronic communications services – including high speed data services – is available throughout the UK
- Ensuring that spectrum is used effectively and efficiently
- Ensuring a wide range of TV and radio services of high quality and wide appeal
- Making sure that audiences have access to a range of broadcasting services
- Applying adequate protection for audiences against offensive or harmful material
- Applying adequate protection for audiences against unfairness or the infringement of privacy





CHAIRMAN'S MESSAGE



COLETTE BOWE

Every year since its inception, Ofcom's chairman has reported on a year of change in the UK's communications sector. Yet again, this has been true in 2009/10.

Super-fast broadband, available to around half of all homes, is now widely seen as an important contributor to the UK's economic recovery and future prosperity. Digital switchover, extended to around 70,000 homes this time last year, is today complete in the great cities of Manchester and Liverpool, as well as throughout Wales and in most of the West of England.

In last year's Annual Report I pledged that Ofcom would continue to be a powerful agent for consumer and citizen interests. Some of the issues we tackle on behalf of consumers and citizens hit the headlines. But others, that never or rarely get reported, can have just as much impact on people's lives. From impartial advice on how to get the best mobile phone deal to new rules boosting the amount of television made for sign language users, to groundbreaking benchmarking of broadband speeds, we are keeping our promise to citizens and consumers.

New responsibilities

Parliament has in the year under review considered and passed new legislation for the communications sector. The Digital Economy Act gives Ofcom new responsibilities and powers in areas such as infrastructure, public service content, internet domain names, radio and spectrum. We are also enjoined to oversee and implement specific aspects of the new regime to tackle online copyright infringement. In some of these areas the work has already started. In others, it will do so shortly.

Last year also saw long awaited revisions to the EU's Framework package. A key reform is the creation of a new pan-European body, the Body of European Regulators in Electronic Communications (BEREC), that will hardwire detailed regulatory analysis into the Commission's deliberations, and within which Ofcom will play a full role.

CHAIRMAN'S MESSAGE

New challenges

These legislative changes take place in a world and a sector much altered by the recession of the past year. Despite the UK's return to growth, the effects of this contraction continue to be felt. We have seen redundancies and cutbacks in the communications sector, but also evidence of real resilience born of a tough competitive environment. The challenge for the future is to maintain this competition while also ensuring that investment in the networks of the future continues and intensifies.

The public debate about infrastructure provision, particularly for next generation broadband, has focused on those parts of the UK likely not to be served, or to be under-served, by the market. The other side of the equation is take-up and participation. Following the publication of the Digital Britain report, the Government asked Ofcom to lead a new Digital Participation consortium including major players such as BT, BSkyB, AOL, the BBC and Google. Some 12.5 million people in the UK do not go online; this is a level of exclusion that cannot be tackled by increased access alone.

Alongside these new responsibilities our work in planning the UK's spectrum requirements for the London 2012 Olympic Games and Paralympic Games will intensify throughout the coming year. I'm pleased therefore that for the sixth consecutive year we have cut our budget on a like-for-like basis, with further savings achieved through a pay freeze, improved procurement and property management and better integrated IT.

Renewed accountability and engagement

Ofcom functions under statute, and accountability to Parliament is central to how we work. Westminster now has a greater proportion of new MPs than at any time in living memory, many of whom – quite rightly – are less concerned with what we have done and more interested in what we will do to improve communications services for their constituents and for citizens and consumers as a whole. We will work hard to account for our regulatory proposals and actions, and to take action in support of our statutory remit.

In September, I was delighted to welcome Norman Blackwell to Ofcom's board. Hyacinth "H" Nwana joined as Ofcom's new Partner for Spectrum, while Christopher Woolard took on the role of Partner, External Affairs and Governance. We will sadly be saying farewell to Stewart Purvis, Partner, Content and Standards, later this summer. Stewart joined Ofcom in 2007 having had a distinguished broadcasting career and has given Ofcom invaluable advice, judgment and guidance in his time with

us. Stewart is intending to pursue the academic career he placed on hold when he joined Ofcom and he leaves Ofcom with warmest thanks from the Board and the Content Board for his contribution to our work.

As in previous years, citizens and consumers have been well served by Ofcom's statutory advisory committees for England, Scotland, Wales and Northern Ireland. At the Advisory Committee for Older and Disabled People we said goodbye to Chair Mike Whitlam and John Welsman and welcomed, as the new Chair, Jo Connell. On behalf of the Ofcom Board, I thank the members of Ofcom's Content Board, and the Communications Consumer Panel for their continuing work. I would particularly like to thank Sir David Brown who is retiring as Chairman of the Spectrum Advisory Board, for his wise counsel to Ofcom over many years – but I am delighted that he is continuing to assist us by Chairing the Spectrum Clearance Finance Committee.

And, again on behalf of the Board, I would like to thank Ofcom's staff, right across the UK, for their hard and effective work during a challenging year.

It is clear that the year we are going into will be even more challenging. Ofcom will continue to have to carry out a wide range of regulatory responsibilities; but, in common with other public corporations, will be asked to make reductions in its costs.

We do not, at the time of writing, know precisely how we will have to recast our cost base. But it seems to me right that in such a situation I should reduce my own remuneration: which I am accordingly reducing by 10%. Ed Richards, as you will read in the Chief Executive's Report, has made a similar decision.

Colette Bowe *Chairman*

CHIEF EXECUTIVE'S REPORT



ED RICHARDS

“Without your advice... my business may have gone under.”

“Due to Ofcom’s intervention my service provider has agreed to waive the bill... and I no longer have to think about remortgaging my home; thank you.”

These are just two of the messages that our advisory team, a small and largely unsung part of Ofcom, received last year. On the phone, through the website, and by email, the team handled nearly 200,000 enquiries from people from all corners of the UK.

It is messages of thanks like these which help remind us that Ofcom exists to further the interests of citizens and consumers. This is at the very heart of the Communications Act, which defines what we do.

To the outside observer, reading newspaper headlines, this can sometimes be missed. But it illustrates that our work – whether setting regulated wholesale prices to address competition bottlenecks or giving advice to members of the public on their telecoms problems – is designed to improve the position of citizens and consumers.

The consumer and citizen at the heart of Ofcom’s work

PROTECTING CONSUMERS

One important area of Ofcom’s work is protecting consumers from harm. In 2009/10 we introduced new rules to tackle the mis-selling of both mobile phone and landline services. The measures are designed to stamp out dishonest, deceptive and misleading marketing practices.

Thankfully, in the area of mobile mis-selling we have seen a significant fall in the number of complaints since we first signalled that new rules would be introduced. For

CHIEF EXECUTIVE'S REPORT

landline mis-selling we are acting on behalf of consumers with an open enforcement programme and we are actively investigating a number of companies that may be breaking the rules.

COMMUNITY RADIO

The year marked the fifth anniversary of Community Radio. This has been a real success story. Since the first station – the Eye in Melton Mowbray – hit the airwaves in November 2005 we have licensed stations across all parts of the UK to willing and capable people with a real passion for their community and broadcasting. Today there are over 160 stations on-air, with a potential audience of eight million people, delivering a rich range of content, catering for the young, the old, different ethnic groups, religions and specialist music genres.

LIFTING THE LID ON BROADBAND SPEEDS

Broadband speeds are an area of great public interest, generating more hits on our website than any other subject. In 2009/10, through extensive research, we lifted the lid on the true speeds that customers can receive from their providers. On the back of this we developed a voluntary code of practice to ensure that internet companies give good quality information on broadband speeds to consumers at the point of sale. Armed with this sort of information, consumers can shop around, making informed decisions about the service they want and who can provide it. Compliance with the Code is not yet at the level we would expect and we will be considering this again in 2010/11.

Encouraging investment

NEXT GENERATION BROADBAND

We also want consumers to benefit from the next generation of broadband networks. These will offer significantly higher bandwidths, capable of delivering media-rich services over the internet to the home.

Last year we published our approach to how such networks would be regulated in the future. In 2009/10 we advanced our work significantly with a detailed set of proposals to facilitate the rollout of super-fast broadband in the UK. The proposals covered wholesale access to new fibre lines laid by BT and access to infrastructure such as the underground ducts and telegraph poles that carry cables, to allow companies to invest directly in super-fast broadband technology.

DEREGULATION IN TELECOMS

Ofcom firmly believes in deregulation wherever it is possible and appropriate. Unshackling businesses from regulations that are past their sell-by date to provide choice for consumers and to promote investment in new products and services is one of Ofcom's core principles.

A trigger for deregulation is the emergence of healthy competition in markets that were once dominated by a single player. An excellent example of this is fixed retail telecoms.

In September 2009 Ofcom removed one of the last pieces of retail regulation in the fixed-line telephone market. This decision came some 25 years after BT was privatised and was taken after the company was judged no longer to have significant market power in the majority of retail landline markets. One of the signs of this was the emergence of other providers such as TalkTalk, Virgin Media and Sky to provide effective competition to BT and help to deliver lower retail prices for customers. This piece of deregulation allowed BT to offer discounted bundles of services for the first time, with new packages announced in March 2010.

We have also made real progress in the availability, choice and price of broadband. Ofcom research shows that in 2005 consumers were paying on average £23.30 a month (excluding VAT) for a broadband service delivered over a copper phone line. They are now paying around £13.61 for the same service.

HD TV THROUGH THE AERIAL

The year was also significant for spectrum. This Annual Report is published during the football World Cup in South Africa. For the first time TV viewers in the UK are watching the matches in high definition through their aerials. This is a direct result of a highly complex project that Ofcom began more than two years ago, to introduce new technical broadcasting standards and rearrange the spectrum that is used for digital TV broadcasting. This delivered the first HD pictures on digital terrestrial television in early 2010. We are grateful for the close co-operation of broadcasters and transmission companies in achieving this objective.

CHIEF EXECUTIVE'S REPORT

Promoting competition

WHOLESALE BROADBAND

In some parts of the communications market price regulation is necessary. There remains, for example, a bottleneck in the wholesale access market for fixed-line telecoms, controlled by BT Openreach. Because of this Ofcom regulates the prices that BT can charge its wholesale customers. In 2009/10 Ofcom announced a new set of prices for the coming years to enable other operators to offer services to domestic and business customers over BT's network, while allowing BT a fair rate of return on the investment it makes in the network.

MOBILE TERMINATION RATES

In mobile, we regulate the wholesale charges that operators make to connect to each others' networks, known as termination rates. We have already cut the rates progressively over a four-year period. This year we set out further proposed cuts up to 2014/15. We expect these proposals to provide landline and mobile operators greater flexibility in designing competitive call packages, further promoting competition.

COMPETITION IN PAY TV

We always think very hard before introducing new regulation of any kind to ensure that it is proportionate and properly targeted on the issues it is designed to address. At the end of the reporting period we decided to require Sky to offer some of its premium sports channels to other pay TV providers at regulated prices.

We didn't come to this conclusion lightly. It followed a three-year investigation, three separate public consultations – which attracted hundreds of responses from stakeholders, interests groups and members of the public – and thousands of pages of detailed analysis of the pay TV market.

At the heart of our action is the aim of delivering significant benefits to consumers; for example, making the most attractive sports content available over more platforms and to millions more homes and unlocking the potential for new innovative pay TV services and packages. Our decisions have since been challenged at the Competition Appeal Tribunal.

Doing more but spending less

The challenges to the conclusion of our Pay TV market investigation represent a reponse with which we are very familiar. Over the last two years we have seen an increase in the volume of appeals, litigation and disputes brought by some stakeholders, particularly in the telecoms sector.

This has presented Ofcom with a fresh challenge. Not only does it sometimes mean a delay in implementing our decisions (and the consumer benefits they will bring) but it presents us with an additional operational and financial challenge in defending our decisions in what is often a prolonged and detailed appeals process.

SAVINGS AGAINST 2009/10 BUDGET

Despite this new challenge, in the year to 31 March 2010 Ofcom made a £7.5m saving against its 2009/10 budget of £136.8m, as part of our continual drive to minimise our operating costs and our costs to stakeholders and taxpayers.

One reason for the saving is the decision taken in 2009/10 by Ofcom's Remuneration Committee to freeze all staff pay and reduce the number of people eligible for performance pay. This included a decision by all members of the Executive Committee to forego being considered for any annual performance pay awards.

Other savings resulted from significant procurement efficiencies, savings through property management, improved efficiencies as a result of a project to integrate Ofcom's IT systems and the decision by the Government not to progress with merging the postal services regulator with Ofcom.

REDUCTION IN UNDERLYING OPERATING BUDGET FOR 2010/11

We have also continued our objective of reducing our burden on stakeholders and taxpayers with a sixth consecutive cut in our underlying operating budget. For 2010/11 Ofcom's total budget is £142.5m. This includes funding for a number of new responsibilities required by Government, outlined in our work for 2010/11, below, and also deficit repair payments to the pension schemes of the legacy regulators that Ofcom was required by Parliament to take on.

Excluding the additional items, Ofcom's core operating budget for 2010/11 is £127.5m which, on a like-for-like basis, is 3.6 per cent lower in real terms than the budget for 2009/10.

CHIEF EXECUTIVE'S REPORT

It is clear that the year we are going into will be even more challenging. Ofcom will continue to have to carry out a wide range of regulatory responsibilities; but, in common with other public corporations, we will be asked to make significant reductions in our costs as a contribution to reducing the public sector deficit.

We do not, at the time of writing, know to what degree we will have to reduce our cost base. But it is inevitable that there will be very difficult choices facing the organisation in the coming months. I have concluded that the right thing to do in these circumstances is for me to reduce my own remuneration by 10%. As you will have read above, Colette Bowe has made a similar decision.

Work for 2010/11

FILE SHARING

Within this budget Ofcom will be carrying out a significant new duty under the Digital Economy Act which became law in April 2010. This is to introduce measures aimed at reducing levels of unlawful file sharing using peer-to-peer online networks.

Ofcom is required to oversee the creation of a code of practice between internet service providers, their customers and rights holders, and began consulting on the code after the period under review.

UK'S COMMUNICATIONS INFRASTRUCTURE

The Act also requires Ofcom to provide a report to the Secretary of State on the UK's communications networks, covering issues such as capacity, coverage, availability and resilience.

SPECTRUM RELEASE

We will continue our spectrum work in 2010/11 including our programme to release new spectrum to the market. Ofcom has identified a range of prime spectrum which could have a wide variety of uses by both consumers and businesses and offer substantial benefits.

In March 2010 the Government laid a Statutory Instrument before Parliament, directing Ofcom to implement a mobile spectrum modernisation programme, designed to unblock the log-jam of litigation preventing Ofcom making progress on the release programme. Once the new government has decided how to take this issue forward, Ofcom will restart the release programme to ensure that there is the

earliest possible release of this critical raw material for wireless services.

TRAFFIC MANAGEMENT

Traffic management is the ability of internet providers to determine and manage the relative priority of data over their networks and will be another area of Ofcom's focus in 2010/11. This follows the adoption of the European Framework which requires domestic regulators to address this concern. We will consult on a range of issues concerning how we might propose to implement the European Framework once it is transposed into UK law.

ANNUAL PLAN PRIORITIES

Our Annual Plan for 2010/11 sets out our priorities for the year. They are grouped under the following themes:

- **Consumer and citizen:** This includes making progress on addressing broadband and mobile not-spots and encouraging the take up of broadband by supporting the Digital Participation Consortium in line with existing Government policy.
- **Competition:** This includes implementing regulation to support investment in super-fast broadband and ensuring fair and effective competition in pay TV.
- **Infrastructure and spectrum:** This includes starting clearance of the 800 MHz band for new mobile services and taking forward plans for the release of spectrum for mobile broadband.

These important areas of work, which individually are designed to further the interests of consumers and citizens, will be set against the background of our day-in, day-out work in advising and supporting thousands of businesses and consumers on a wide range of communications issues.

Ed Richards Chief Executive

For a more detailed review of Ofcom's areas of work during 2009/10, see Section B of this report, starting on page 15.

ANNUAL REPORT OF THE CONTENT BOARD



PHILIP GRAF

The Content Board is at the heart of all Ofcom's decision making in relation to media content. The past year has emphasised what an extraordinary range that encompasses.

For example, much thought has gone into our leading role in Digital Participation, the rapid changes in consumption of media, and how regulation may need to adapt in future to that change. For the first time, Ofcom became explicitly responsible for the regulation of video on demand, including the provision of such service on the internet. But at the same time, the power of traditional media remained very apparent – and occasionally the power to offend, illustrated by the Ross-Brand affair.

Against this background I decided, with colleagues, on a more structured and strategic way for the Content Board to deal with these issues. Our five priorities are: Broadcasting Standards; Updating Content Regulation; Updating Radio Regulation; Advertising and Commercial Messages; and Digital Participation. The structure of this report reflects these priorities.

Broadcasting Standards

Ofcom has an absolutely key role in maintaining standards in broadcasting – protection of children, avoidance of harm and offence more widely, preserving impartiality, ensuring fairness to those involved in programmes and avoiding unwarranted invasion of privacy. With this in mind, this year we identified areas where we can make improvements to the way we handle cases and we substantially updated our procedures, in the interests of transparency, consistency and speed, for standards and fairness and privacy cases and for broadcasting sanctions. These new procedures will improve the complaints experience for members of the public and broadcasters by allowing us to deliver more effective and timely enforcement.

As part of this review of the way we handle cases we have created the Broadcasting Review Committee to act as an effective check and balance on the decision making of the Ofcom Executive. The Committee will review the decisions of the Ofcom Executive in fairness and privacy cases and standards cases where either a complainant or a broadcaster is able to demonstrate that the decision is flawed. This

ANNUAL REPORT OF THE CONTENT BOARD

succeeds the Fairness Committee (which dealt with the most complex fairness and privacy cases requiring careful judgement to balance the need to protect freedom of speech for broadcasters while upholding the public interest and reviewed decisions of the Ofcom Executive in fairness and privacy cases).

KATH WORRALL

My colleague Kath Worrall chaired the Fairness Committee for three and a half years, showing great dedication and sound judgement throughout her tenure. Kath has always carried out this role with the utmost integrity and her meticulous and rigorous approach has been vital for citizens and stakeholders and invaluable to Ofcom. She has played a vital role in the Content Board's work to ensure that the public, including the most vulnerable members of society, are protected from harm and offence, unfair treatment and unwarranted invasions of privacy.

Kath was also instrumental in work on amending the Broadcasting Code to ensure that anyone under the age of 18 who participates in programmes is not caused physical or emotional distress during or as a result of their participation and that due care is taken by broadcasters over their welfare.

COMMITTEE DECISIONS

The Content Sanctions Committee decided on six cases where sanctions were required during the year. Among these, the highest profile attached to *The Russell Brand Show* on BBC Radio 2. We imposed a fine of £150,000; the level of fines Ofcom can impose on the BBC is lower than for the major commercial channels. Nevertheless, we are acutely conscious that such fines take licence-fee payers' money away from BBC programme making (albeit that it is remitted to taxpayers, as it is paid directly by Ofcom to the Treasury). In this instance we felt the infringement of Andrew Sachs' privacy and remarks on air merited a penalty. We are pleased that the BBC recognised the failings and has since taken steps to improve its own compliance procedures.

Three of the other cases involved 'adult' and 'adult sex chat' satellite channels. Six fines were imposed, ranging from £12,000 to £27,500. These are substantial sums in relation to smaller channels, but problems of compliance remain and Ofcom will continue to work hard to ensure that compliance in this area improves. More details of the work of these Committees can be found on pages 42 and 43.

Ofcom's Election Committee – which is composed of members of the Content Board – met for the first time in 2009. The purpose was to settle two disputes in relation to Party Election Broadcasts before the European Elections.

In the first instance, we turned down an appeal from Traditional Unionist Voice for an additional broadcast on UTV. But in the second – taking account of the party's demonstrable electoral support – we upheld a request from UKIP Wales for an additional broadcast on ITV Wales.

Updating content regulation to meet the changing needs of audiences

We wanted to understand better the fundamental purposes and role of 'linear' content regulation, and how it might need to be updated (linear is used here to refer to conventional TV channels as distinct, for example, from video on demand). We also wanted to look at future options for addressing issues of harm and offence, impartiality and fairness, in content. Thus we are addressing issues both of regulation for quality and regulating to protect audiences.

The revised EU Audio Visual Media Services Directive made Ofcom explicitly responsible, for the first time, for video on demand (VOD) content, including on the internet. We have decided that an existing industry body, the Association for Television On Demand (ATVOD) should be designated as co-regulator for editorial VOD content.

In a development aimed at supporting public service content, my colleague Stewart Purvis acted as the independent advisor to the panel appointed by the Department for Culture, Media and Sport to select operators to run pilot Independently Funded News Consortia (IFNC) in three ITV/Channel 3 areas: Wales; Central and North Scotland; and North East England and the Borders. The Government's intention was to trial the use of public funding (drawn initially from a surplus from the digital switchover help scheme) to sustain regional news (online as well as TV) where it would otherwise be economically unviable.

Advertising and other commercial messages

Another major theme of the year's work was in relation to the funding of content, and the continuing changes in advertising markets that have traditionally funded commercial broadcasting. The Board contributed to shaping a major Ofcom project on Advertising and the Funding of Content; and considered the more immediate issues surrounding the rules on length and distribution of advertising breaks, and the differential effects of changes on various sectors of the TV industry.

The Government announced a decision to permit product placement in TV programmes, subject to a number of safeguards. Ofcom decided to conduct a wide review of commercial messages of all kinds that fall or may fall

ANNUAL REPORT OF THE CONTENT BOARD

within editorial content. Our colleagues at BCAP/ASA (the co-regulatory body for broadcast advertising) agreed to undertake this jointly with us. This is in addition to the review of the Broadcasting Code that we shall undertake so as to allow product placement.

We also considered and formally agreed changes to the Advertising Code, following a major consultation and review undertaken by BCAP/ASA.

The future of radio regulation

The Government's Digital Britain initiative, and subsequent Digital Economy Act, took radio policy forward in two major ways. Firstly a plan for an industry-wide upgrade from analogue to digital, with corresponding licensing measures to enable this. Secondly, a liberalisation of the statutory constraints within which Ofcom regulates local radio.

Against this backdrop, the Content Board wanted to take a strategic look at radio regulation in the medium term, considering the future shape of the sector, taking full account of changes in technology and consumer behaviour. The resulting thinking has fed into a Statement on Localness Regulation that Ofcom published shortly after the passing of the Digital Economy Act. This gives local radio stations greater freedom to co-operate by 'co-locating' their studios, and sharing programming, while preserving local content that listeners value, and prioritising news delivery.

Digital Participation

The Interim Digital Britain Report early in 2009 called for Ofcom to convene a working group to prepare a plan for a step change in the promotion of media literacy. Ofcom invited the Content Board's Deputy Chair Adam Singer, and members Anthony Lilley and Paul Moore to join the group. All three made important contributions to the output of the group – the Digital Britain Media Literacy Working Group Report (March 2009).

The final Digital Britain report, published in June 2009, accepted the group's proposals and called for Ofcom to lead a Consortium of stakeholders to promote increased take-up of digital technologies and in particular the internet. Paul Moore is Content Board member for Northern Ireland, and sits on the Consortium in his role as chair of the Northern Ireland digital participation hub. Paul wrote the Digital Participation Plan for Northern Ireland, which formed part

of the UK National Plan for Digital Participation, published in March 2010.

The Content Board is extremely supportive of Ofcom's work in media literacy, and digital participation more widely. I am especially pleased to note the leading role taken by Stewart Purvis in chairing the Consortium. The Consortium brings together over 60 major partners who will work together to increase the number of people online and encourage those already online to reap the many benefits it can bring.

There is one theme that is consistent through all the work of the Content Board, that is the importance of the varied nations, regions and localities of the UK. This is a special focus of the Content Board's responsibilities and of my colleagues who represent the interests of the four nations: Joyce Taylor (Scotland), Sue Balsom (Wales), Richard Ayre (England) and Paul Moore (Northern Ireland), who made an important contribution this year.

I would also like to take this opportunity to thank Richard Ayre, Sue Balsom, Pam Giddy, Kath Worrall and Adam Singer for all their work on the Content Board over several years, as they will be departing this summer. They have been an invaluable source of wisdom and expertise and Ofcom owes them considerable gratitude for their unstinting effort on its behalf. In particular, I would like to thank Adam Singer for his support in his role as Deputy Chairman of the Content Board.

Philip Graf *Chairman, Content Board*

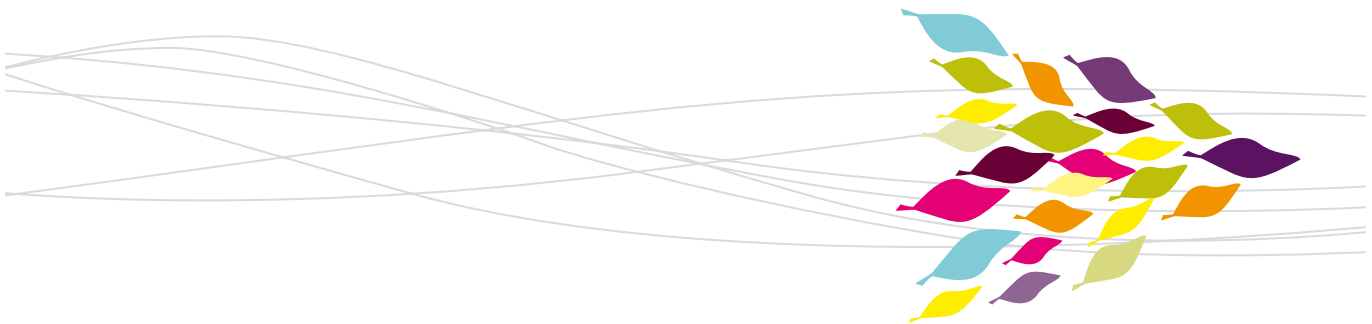
SECTION B - CORE AREAS OF ACTIVITY

This section of the Annual Report sets out Ofcom's main areas of work between April 2009 and March 2010. They are grouped under some of the priority areas in Ofcom's Annual Plan for 2009/10, which set out what we planned to do.

These are:

- Driving forward a market-based approach to spectrum
 - Promoting competition and innovation in converging markets
 - Delivering public interest objectives as platforms and services converge
 - Empowering citizens and consumers and improving regulatory compliance where necessary
 - Simplifying regulation and minimising administrative burdens
 - Maximising our impact on international policy development
-

DRIVING FORWARD A MARKET-BASED APPROACH TO SPECTRUM



Releasing spectrum, including the Digital Dividend

The switch to all-digital television broadcasting is gaining momentum across the UK. Over 90 per cent of households have digital television and that number is rising every month. Already, homes in the West Country, Wales and the Granada region, which includes Manchester and Liverpool, have successfully switched and the process will continue across the UK until it completes in 2012.

The visible benefit of the switch to digital is more channels – with almost 100 channels on Freeview and many more on satellite and cable.

But there is another big benefit that we won't immediately be able to see. Switchover will free up a chunk of some of the most valuable radio spectrum – known as the Digital Dividend – for new uses. Spectrum is a finite and extremely valuable resource that is the essential raw material for all wireless services. Some frequencies are more valuable than others, for example because they are suitable for highly valued services like mobile broadband or broadcasting or because their use is harmonised internationally, making it more likely that equipment will be readily available and affordable.

Digital Britain – plans for spectrum allocation

In 2009, as part of its Digital Britain initiative, the Government consulted on the allocation of the 800 MHz

spectrum (part of the Digital Dividend, described above) and also the 2.6 GHz spectrum, which is in demand by mobile phone operators for services using technologies such as WIMAX and evolutions of 3G technologies. The consultation built on earlier Ofcom work to liberalise this spectrum. The aims of the Government's consultation included encouraging the transition to next generation mobile and facilitating more widespread availability of mobile broadband. Mobile broadband could contribute to achieving near-universal broadband across the UK, which would benefit consumers.

A spectrum modernisation Direction was laid before Parliament shortly before the general election. Once the new government has decided how to progress the Direction and it has been agreed by Parliament, Ofcom will move quickly to implement it. Releasing and liberalising spectrum in a timely way will allow UK consumers to benefit from a range of innovative wireless services.

In the meantime, Ofcom has continued with its work on clearing spectrum and preparing it for new uses. This includes the creation of two important committees, described below.

SPECTRUM CLEARANCE FINANCE COMMITTEE

The Spectrum Clearance Finance Committee was formed by the Ofcom Board in September 2009 to consider proposals for, and determine, spectrum clearance payments. Since then it has been considering issues related to two projects: the clearance of high power DTT (Digital Terrestrial Television) from channels 61 and 62 and the clearance of PMSE (programme making and Special

DRIVING FORWARD A MARKET-BASED APPROACH TO SPECTRUM

Events) from channel 69.

DTT ALLOCATION COMMITTEE

The DTT Allocation Committee is a sub-committee of the Ofcom Board with a duty to determine how capacity on DTT Multiplex B will be allocated, following an order from the Secretary of State for Culture, Media and Sport in July 2008. In 2009 Ofcom received two applications (one from Channel 5 and one from Channel 4/S4C jointly) in response to its Invitation to Apply for a fourth slot of capacity to provide a high definition television service in Multiplex B. After considering the applications, the Committee did not reserve capacity for either of the applicants as neither party was in a position to provide a firm commitment to a launch date. As no reservation was made, the capacity will be available for the BBC to use.

Wireless microphones, with fewer strings

In December 2009 Ofcom revised the arrangements for licensing wireless microphones. Wireless microphones play a vital role in numerous live events; they are used by everyone from compères and public speakers to actors and rock stars.

By the end of 2012, one of the channels they currently occupy (channel 69) will be cleared for new uses (to enhance the Digital Dividend). In its place, channel 38 will become available on a shared-use basis. This means that equipment used in different locations can be covered by the same licence, reducing costs and paperwork for users who travel with their equipment.

Securing the airwaves for the London 2012 Olympic Games and Paralympic Games

The London 2012 Olympic Games and Paralympic Games will create a major logistical challenge: ensuring the availability of radio spectrum. With demand generated by everything from organisers' walkie-talkies to the broadcast cameras that will serve a global audience of five billion, demand on the UK's airwaves will be unprecedented.

In October 2009 Ofcom published the Spectrum Plan. In accordance with the Government's guarantees to the International Olympic Committee, the plan outlines how we can secure sufficient spectrum while minimising the impact on everyday users.

We will source the spectrum in four main ways, by:

- borrowing spectrum on a short-term basis from public sector bodies, such as the Ministry of Defence;
- encouraging more efficient use of civil spectrum;
- making use of spectrum freed up by the digital switchover; and

- using licence-exempt spectrum.

Supporting the development of spectrum trading and liberalisation

A REVISED FRAMEWORK FOR SPECTRUM PRICING

Ofcom has a duty to secure optimal use of the radio spectrum. We interpret this to mean that the spectrum is used in a way that maximises the value that citizens and consumers derive from it, including broader social benefits. We use a range of regulatory tools, including pricing, to incentivise the efficient use of spectrum.

In March 2010, following a review of our approach to setting spectrum fees, we published a consultation clarifying our approach to spectrum pricing and setting out the principles and practices that we propose to use in future.

SPECTRUM ENFORCEMENT

PROTECTING THE AIRWAVES

Illegal radio ('pirate radio') is a significant problem in the UK's major urban areas. It poses a real risk of interference with the safety-of-life communications of the UK's ambulance, fire, police and air traffic control services and can sometimes drown out legitimate radio stations.

During 2009/10, Ofcom carried out 21 studio raids on illegal broadcasters. In many investigations the cases must be referred to the courts and we secured 26 convictions and nine formal cautions during the year. We also issued two written warnings.

ILLEGAL EQUIPMENT

Ofcom is also responsible for taking action against the sale and use of equipment that does not comply with UK and European regulations. This is because illegal wireless devices can cause interference to other radio users.

During the year we undertook 131 enforcement actions (including 61 internet surveillance cases through online auction sites) resulting in 1,142 items of illegal equipment being removed from the market (including 456 from eBay), and issued ten formal cautions and 135 written warnings.

PROMOTING **COMPETITION** **AND INNOVATION** IN CONVERGING MARKETS



Competition in pay TV

During 2009/10, Ofcom concluded its investigation into the pay-television sector. This resulted in three decisions:

- To require that Sky Sports 1 and 2 are offered to retailers on platforms other than Sky's, at prices set by Ofcom.
- To approve Sky and Arqiva's request for Sky to offer its own pay TV services on digital terrestrial TV ('Picnic'), but conditional on a wholesale must-offer obligation on Sky Sports 1 and 2 being in place, with evidence that it has been effectively implemented. This conclusion is also conditional on any movies channels included in Picnic being offered to other digital terrestrial TV retailers.
- To consult on a proposed decision to refer two closely related movie markets – for the sale of premium movie rights and premium movie services – to the Competition Commission. This is with a view to asking the Competition Commission to remedy those competition concerns which we have identified, particularly in relation to the restricted exploitation of subscription video-on-demand movie rights, but which we cannot adequately address using our sectoral powers.

We expect that our decisions in relation to Sky Sports 1 and 2 and Picnic will deliver substantial benefits to consumers.

- The most immediate benefit will be felt on digital terrestrial television. Ten million Freeview households will, if they so choose, be able to access the most

attractive sports content via their existing aerials, and competition between Sky and other retailers should ensure a wide range of packages, including lower-priced entry-level bundles.

- Improved access to 'must-have' content will incentivise investment in new means of distributing content, such as faster broadband networks. In the longer term this will result in a range of innovative new services for consumers.
- We also expect to see improved choice of wider bundles which include broadband, voice and TV services, with a variety of suppliers able to compete effectively across all three of these key communications markets.

Competition in fixed line telecoms

SIX MILLION UNBUNDLED BROADBAND LINES

In August 2009, we were able to announce a major milestone for competition in the UK broadband market. The number of unbundled lines – with providers such as BSkyB and TalkTalk offering services over BT's copper network – had reached six million. The catalyst for this increase was a set of legally binding Undertakings which Ofcom agreed with BT in September 2005. At the time, there were just 123,000 unbundled lines in the UK.

In May 2009 we set new wholesale prices which Openreach (BT's wholesale access division) is allowed to charge communications providers for access to its

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wholesale telecoms services. Effective until April 2011, the new prices were designed to give Openreach a fair return on its investment in the network, together with an incentive to continue to invest, while also supporting continued competition.

BROADBAND COMPETITION EFFECTIVE FOR OVER 70 PER CENT OF THE POPULATION

In March 2010 we published a review of the wholesale broadband market. In this review we found that broadband competition is effective in most of the country and proposed that there is no need for regulation in areas covering over 70 per cent of the population. This follows deregulation by Ofcom in areas with effective competition in the broadband market in May 2008. However, in the least competitive areas, where consumers only have access to broadband services provided by BT (around 14 per cent of UK premises), we proposed some locally specific price controls to protect consumers against the potential risk of excessive prices.

Enabling clear regulation for next generation access and core networks

MAKING SUPER-FAST BROADBAND A REALITY

Super-fast broadband is becoming a reality in the UK, bringing with it the potential to change the way in which we live and work. Today, Virgin Media has completed its upgrade to offer super-fast broadband services over its cable network, offering up to 50Mb/s. BT has recently launched its Infinity product based on its ongoing upgrades to its copper access network, offering up to 40Mb/s, and has announced its intention to deploy fibre to the home, offering faster speeds to up to 10 per cent of UK homes with the possibility of extending this more widely in future.

Using super-fast broadband services (generally considered to be those capable of delivering over 24Mb/s) different members of a household can access a variety of high-bandwidth services simultaneously. This could include watching high-definition television, playing interactive games and streaming or downloading music, television programmes and films over the internet.

Businesses can benefit from simultaneous services such as two-way video calls and enhanced data retrieval, and we can expect to see more opportunities for home-working.

Ofcom published proposals in March 2010 to support investment and promote competition in super-fast broadband. This is part of our overall aim to provide certainty and a regulatory environment that allows industry to build and market these new networks and services.

We proposed that competitors be given access to BT's new fibre-based super-fast broadband network, through the means of a dedicated virtual connection. This approach, known as 'virtual unbundling', would give providers control of the new access connection so that they could provide super-fast broadband to their own customers. In order to promote investment, we proposed that BT should be able to set prices for these new wholesale products, to ensure it sees a fair rate of return to reflect its investment and the associated level of risk. However, these prices will be constrained by the wider competitive broadband market, which includes the existing copper and cable networks.

We also proposed that competitors be given access to BT's underground ducts and overhead telegraph poles so that they can install their own fibre networks. In this case BT would be required to share detailed information about accessibility and spare capacity in its network. Ofcom surveys have indicated that up to 40-50 per cent of BT's ducts have space for new cables, but availability is highly variable and the practicalities of using BT's ducts and poles will have to be worked through.

PENSIONS AND PRICING: REVIEWING BT'S COMMITMENTS

In recent years, company 'defined benefit' pension schemes have made headlines as scheme deficits have grown. According to the Pension Protection Fund, in 2009 the majority of UK schemes were in deficit – that is to say the present value of scheme liabilities exceeded the value of the assets.

The BT 'defined benefit' pension scheme is one of the biggest in the UK with liabilities of over £40bn, and a (pre-tax) deficit of over £9bn (based on the actuarial valuation as at 31 December 2008).

In December 2009 we published a consultation on the way in which we take account of BT's pension costs when we set the regulated prices that Openreach charges other communications providers to deliver services to consumers. Regulatory controls also apply to certain other services such as leased lines provided by BT Wholesale. The consultation asked whether we should maintain our current methodology

PROMOTING COMPETITION AND INNOVATION IN CONVERGING MARKETS

(we exclude deficit repair payments and use BT's reported accounting charges to allow for ongoing service costs), or whether we should change our approach.

If we decide to adopt different principles in our treatment of pension costs, it could have a significant impact for stakeholders and, ultimately, consumers. Changes in wholesale charges would not necessarily be felt proportionately by consumers, although we could expect an effect on consumer prices. We will be publishing a second consultation in summer 2010, in which we will set out our proposed approach for the future.

- payments made by fixed operators such as BT to mobile operators for terminating calls would also fall. We would expect these reductions to lead to lower prices for consumers in a competitive marketplace.

ASSESSING OUR REGULATORY APPROACH TO MOBILE

Consumers are using increasingly more mobile services, paying lower prices for them and, more than ever, using mobile data services and accessing the internet on the move. In April 2010, Ofcom published data showing a 200 per cent rise in data traffic on mobile networks in a year.

Ofcom's work to further the interests of consumers in a healthy UK mobile market included completing our Mobile Sector Assessment (discussed on page 24). We also worked with the OFT to support the European Commission as it considered the formation of a joint-venture combining the UK business units of T-Mobile and Orange.

LOWER TERMINATION RATES FOR MOBILE USERS

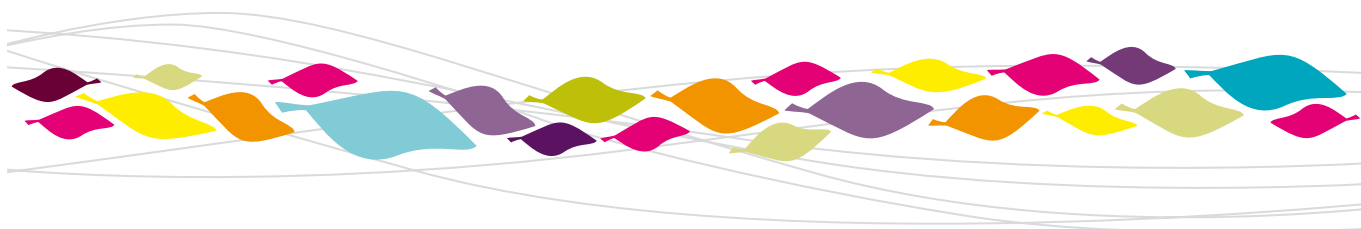
In May 2009 we began a review of mobile termination rates – the wholesale charges that operators make to connect calls to each other's networks – and the way in which they should be set from 2011-2015. This followed our earlier decision in 2007 that rates would fall annually until 2011.

In April 2010 we published proposals that would see rates reducing progressively from 4.3p per minute (for O2, Orange, T-Mobile and Vodafone) and 4.6p (for 3 UK) in 2010/11, to 0.5p for all operators in 2014/15. The method used to calculate these rates only takes into account costs that are incurred directly from terminating calls, rather than additional overheads, and is consistent with the EU's recommended approach.

The proposed changes would have two effects:

- payments between mobile operators for terminating calls would fall: this change would largely balance out across the mobile industry; and

DELIVERING **PUBLIC INTEREST OBJECTIVES** AS PLATFORMS AND SERVICES CONVERGE



Preparing for the future of PSB

Public service broadcasting (PSB) delivers a varied and extensive range of programming for viewers, including news, current affairs and documentaries, UK-made dramas and children's programmes which are all valued by audiences.

PSB: A DECLINING SPEND BUT APPRECIATIVE AUDIENCES

One of Ofcom's statutory roles is to assess PSB, and the broadcasters' delivery of public service purposes. The PSBs consist of all the BBC's licence fee-funded services, ITV1, Channel 4, Five and S4C.

Our PSB annual report, published in July 2009, showed that against a backdrop of a rapidly changing television environment, overall appreciation of PSB had increased over the last two years. We found that 63 per cent of viewers said PSB channels offered high-quality programmes, up four percentage points on the year. More viewers also thought that news programmes were trustworthy, and felt big national events were covered well.

However, the five main PSB channels spent 15 per cent less on original UK programmes in 2008 (£2.6bn) than they did in 2004 (£3bn). In the same period, the total hours of original content broadcast also fell by three per cent to 33,177 hours a year.

PERMITTED AMOUNT OF ADVERTISING UNCHANGED

Following the second stage of our review of advertising regulation, we said in May 2009 that we did not propose to make any changes to the amount of advertising on TV,

although the issue would be examined again in 2010.

However, we did make some minor changes to the scheduling of advertising on PSB channels. We allowed more breaks in PSB programmes longer than one hour, bringing the rules into line with non-PSB channels, and we allowed teleshopping on PSB channels between midnight and 6am. We also increased protection for viewers of transactional gambling services.

Content and standards on TV and radio

THE BROADCASTING CODE IS REVISED

The TV and radio broadcasters' 'rule book' was revised in December with the publication of the 2009 Broadcasting Code.

The Code sets out clear rules which allow audiences freedom to exercise informed viewing and listening choices, and broadcasters freedom for creativity.

The refreshed Code continues to cover areas such as the protection of under-18s, harm and offence, fairness and privacy, and commercial references in programmes. The main revisions were intended to benefit audiences by helping broadcasters to avoid compliance failures, particularly in areas including audience competitions and voting, and sexual material. Up-to-date research on audience attitudes to sexual material was commissioned and published as part of the Code Review. Together with updated research on public attitudes to offensive language, due to be published in 2010, this research will help inform Ofcom of developments in consumer attitudes when applying the Code rules.

DELIVERING PUBLIC INTEREST OBJECTIVES AS PLATFORMS AND SERVICES CONVERGE

The changes to the Code incorporated the requirements of the European Audiovisual Media Services (AVMS) Directive. In addition the Government has now decided, following a public consultation, to permit product placement in certain genres of television programmes, and has required Ofcom to consult stakeholders on detailed changes to the Code to allow this. The Code Review will therefore continue in 2010, in order to review and revise those sections relating to commercial references.

Programme investigations

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

During 2009/10 we received more than 24,000 complaints, either from viewers or listeners, or from people featured in programmes.

Here is just a small sample of the cases we considered:

- Complaints of unfairness made against BBC programme *Pedigree Dogs Exposed* by the Kennel Club. The complaint was partly upheld because the Kennel Club was not given an opportunity to respond to an allegation regarding eugenics, a comparison with Hitler, and association with Nazi racial theory, or an allegation that it covered up an operation carried out on a Crufts Best in Show winner, although it did have an opportunity to respond to other serious allegations. Complaints about the programme made by the Rhodesian Ridgeback Club of Great Britain and Mrs Virginia Barwell were also upheld, but complaints made by the Cavalier King Charles Spaniel Club and Mr Michael Randall were not upheld. Ofcom directed the BBC to broadcast a summary of our adjudication.
- Complaints from viewers about a four-part documentary, *Boys and Girls Alone*, broadcast on Channel 4 in February 2009. Some were concerned that ten boys and ten girls, each aged between eight and 12, seemed to be left largely to their own devices in a potentially unsafe environment without adult supervision. Ofcom's investigations found that this was not the case, but did find that, in the first episode, the broadcaster failed to adequately inform the viewers of the safeguards it had put in place.
- We fined Channel TV a total of £80,000 concerning its handling of phone voting for the People's Choice Award in the British Comedy Awards 2004 and 2005. In both cases, the final half-hour of the programme was pre-recorded but broadcast 'as live'. During this time, viewers were still encouraged to make premium rate calls to vote in a contest that had already been decided.
- Ofcom decided there was no breach of the Code when Channel 4 broadcast a controversial Despatches documentary investigating the record of Boris Johnson as Mayor of London, *The Trouble with Boris*. Ofcom once again underlined in this decision the essential role played by investigative journalism in broadcasting.
- Nearly 4,000 complaints were made about an *X Factor* programme (ITV1) containing allegedly offensive remarks made by one of the judges, Dannii Minogue, about one of the contestants, Danyl Johnson. Although many viewers found the remarks challenging and offensive, Ofcom held that they were justified by the context.

You can see full details of all adjudications on the Ofcom website at www.ofcom.org.uk/tv/obb

REGULATING VIDEO ON DEMAND

In December 2009, revised European law directed that video on demand (VOD) services (such as BBC iPlayer, 4OD, ITV Player, SkyPlayer and Demand Five) must be regulated. This legislation requires that material provided on such services must adhere to a number of minimum standards including the prohibition of material that incites hatred based on race, sex, religion or nationality. Sponsored programmes also have to comply with relevant requirements.

In March 2010, following consultation, Ofcom designated the Association for Television on Demand (ATVOD)¹ as co-regulator for editorial content on UK VOD services. It will be responsible for ensuring that programming adheres to these minimum standards.

Supporting the evolution of radio

RELAXING THE RULES ON LOCAL MEDIA OWNERSHIP

With a major advertising recession during the last two years and growing competition from new media, the local media sector has been under acute commercial pressure.

In November 2009, following a consultation on the local media sector, we recommended two changes to the Secretary of State for Culture, Media and Sport which would relax media ownership regulations:

- removing the rules around local radio services / multiplex ownership, and national radio multiplex ownership; and
- liberalising local cross-media ownership rules. The

¹Ofcom has not delegated out the function of regulating the BBC in this area, the regulation of which therefore remains with Ofcom.

DELIVERING PUBLIC INTEREST OBJECTIVES AS PLATFORMS AND SERVICES CONVERGE

only restriction would be on ownership of all three of: a local radio station; local newspapers (with 50 per cent or more of the local market share); and a regional Channel 3 licence.

RADIO LICENSING

During the year April 2009 to March 2010, the Radio Licensing Committee (RLC) considered three Format change requests from analogue commercial radio stations, agreed to changes in the line-up of programme services on the national radio multiplex, agreed to changes in the launch dates of new local radio multiplex services, and discussed various other radio licensing matters.

Between 1 April 2009 and 31 March 2010, the RLC awarded a total of 26 Community Radio licences (figure 1). By the close of this reporting year, some 221 groups around the UK had been awarded a Community Radio licence. Of these, 167 stations were broadcasting.

**FIGURE 1: COMMUNITY RADIO LICENCES AWARDED
1 APRIL 2009 – 31 MARCH 2010**

1 Ummah FM	Reading
107 Meridian FM	East Grinstead
107.8 Academy FM Thanet	Ramsgate, Kent
Academy FM Folkestone	Folkestone, Kent
AHBS Community Radio	Ashford, Kent
Awaaz Radio	High Wycombe
Biggles FM	Sandy, Beds
Gateway FM	Basildon
HCR FM	Huntingdon
Insanity	Egham
Inspire FM	Luton
Intobeats FM	Bedford
Kane FM	Guildford
Marlow FM	Marlow, Buckinghamshire
OX4 FM	Oxford
Radio BGWS	Farnborough/Aldershot/Camberley/ Fleet
Radio LaB	Luton
Radio Sunlight	Gillingham, Kent
Rye FM	Rye, East Sussex
SAFE Radio	Grays, Essex
Seahaven FM	Newhaven/Seaford/Peacehaven, East Sussex
SFM	Sittingbourne
The Park	Brockenhurst
Uckfield FM	Uckfield, East Sussex
Vibe FM	Watford
Voice FM	Southampton

EMPOWERING CITIZENS AND CONSUMERS AND IMPROVING REGULATORY COMPLIANCE WHERE NECESSARY



Mobile: pledging further consumer protection

Mobile communication has transformed the way most of us keep in touch. Innovation is flourishing: we are using more text and data services; mobile internet access is taking off; and mobile devices can do more while costing less.

In December 2009 we concluded our assessment of the mobile sector with the publication of the Mobile Sector Assessment Statement. We found that, currently, mobile markets are serving UK citizens and consumers well and competition between mobile operators is driving this success.

We want to ensure that consumers continue to get the best choice and value for money from their mobile services, and there are areas where we need to be prepared to intervene if the market does not deliver good outcomes for citizens and consumers.

Our priorities are to ensure:

- easy and reliable switching;
- access to independent price comparison information to allow consumers to get a good deal;
- protection for consumers from misleading or exploitative practices; and
- that vulnerable consumers are not disadvantaged.

We also consider mobile coverage to be an area of ongoing concern. We are conducting research to determine the

causes of not-spots, including those that can occur in areas 'covered' by mobile networks, and liaising with mobile operators and public bodies to explore the contribution we could make to facilitate better coverage.

During the year under review we also provided evidence to the European Commission on the merger of Orange and T-Mobile in the UK. The Commission said that for the merger to go ahead the two companies should agree to a number of undertakings.

New consumer protection measures

The mobile phone industry's methods have attracted many complaints in recent years. These range from customers finding themselves on more expensive tariffs or longer contracts than they had agreed to, to problems with little or no coverage.

NEW RULES TO COMBAT MOBILE MIS-SELLING

We put new rules in place in September 2009 to crack down on mobile service providers who engage in dishonest, misleading or deceptive selling practices. They replace a Voluntary Code of Practice, introduced in July 2007, to tackle mis-selling and cashback issues.

Among the new requirements, mobile network operators must:

- not mis-sell mobile phone services;
- make sure customers intend, and are authorised, to enter

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into a contract;

- make sure customers get the information they need at the point of sale;
- make sure that the terms and conditions of cash-back deals offered by retailers are not unduly restrictive; and
- carry out certain due diligence checks on retailers.

Providers who breach these rules run the risk of fines of up to ten per cent of relevant turnover.

LANDLINE MIS-SELLING: NEW RULES IN FORCE

We also announced new rules governing the landline sector in March 2010.

Although the majority of providers market their services responsibly, some use mis-selling methods that have generated an average of 750 customer complaints a month. These include 'slamming', where a customer is moved from one provider to another without their knowledge or consent. Others include:

- telecoms providers making calls pretending to be another company;
- giving incorrect information on package costs; and
- failing to advise customers on minimum contract periods and early termination charges.

The new rules:

- prohibit telecoms providers from engaging in misleading and inappropriate sales and marketing activity, and slamming;
- require telecoms companies to keep better records of their sales and marketing activities;
- confirm the type and level of information that needs to be made available to new customers at the point of sale and after the sale has been concluded; and
- introduce new rules to make clear when providers are allowed to cancel orders placed by other providers.

We also announced a monitoring and enforcement programme to ensure compliance with the new rules. Previously, 14 companies had been investigated for breaches of the current regulations, with two being fined the maximum ten per cent of turnover for failing to comply.

NEW RULES AND FURTHER PROPOSALS FOR TELECOMS COMPLAINTS

Every week, Ofcom receives thousands of calls from customers who are unhappy with their telecoms provider.

Historically, customers had to give their providers 12 weeks to resolve a problem before a complaint could be taken to a dispute resolution service. However, our research showed that complaints were just as likely to remain unresolved at 12 weeks as they were at eight.

In new rules which came into force in September 2009, telecoms providers now have eight weeks, instead of 12, to resolve complaints. They must also comply with an Ofcom-approved code of practice and be a member of an approved resolution scheme (CISAS or Otelo).

Providers who fail to comply risk fines of up to ten per cent of their relevant turnover.

Our research has shown that over 85 per cent of customers are fairly or very satisfied with their communications provider. However, we also found that 23 per cent of the population had made a complaint in the previous year, with 30 per cent of these complaints still unresolved twelve weeks later. This amounted to some three million complaints. Few people knew that they had the right to take their issue to an independent resolution service.

In December 2009, we announced proposals to improve the way providers handle their customers' complaints. These included:

- establishing minimum standards for complaints handling, ensuring accessibility and transparency;
- raising awareness of dispute resolution services, which have been shown to help resolve long-running complaints; and
- considering whether publishing providers' specific performances in this area would aid transparency, benefitting consumers and the industry.

Promoting consumer information and improving switching procedures

Broadband

LIFTING THE LID ON BROADBAND SPEEDS

As broadband customers have become accustomed to using bandwidth-hungry applications (such as downloading music and video), they have become increasingly focused on the

EMPOWERING CITIZENS AND CONSUMERS

speeds they receive. This has been exacerbated by a lack of reliable information on actual speeds delivered by ISPs.

In July 2009 Ofcom revealed the results of a major research programme into fixed-line broadband speeds in the UK.

Our research, carried out with technical partner SamKnows and research agency GfK, showed that most customers were happy with the speeds they were experiencing, although just over a quarter said the speed they received was not what they had been led to expect when they signed up.

Key findings were:

- The average broadband speed in the UK in April 2009 was 4.1Mbit/s, compared to an average claimed headline speed of 'up to' 7.1 Mbit/s.
- Actual speeds differed widely. Fewer than one in ten of our sample on 8Mbit/s headline packages received actual average speeds of over 6Mbit/s, and around one in five received, on average, less than 2Mbit/s.
- People in towns received an average speed of 4.6Mbit/s, compared to an average of 3.3Mbit/s for rural consumers.
- Customers on average experienced a slowdown in speeds of around 20 per cent during peak evening hours (8-10pm).
- Consumers on 'up to' 8Mbit/s packages with second-generation DSL technology (ADSL2+) received faster speeds than those with the more common first-generation ADSL1, although ISPs using ADSL1 who invested in network capacity were able to deliver comparable speeds to ADSL2+ operators.
- On average, cable customers received significantly faster speeds than both ADSL technologies.

SHOPPING FOR THE TRUTH ON BROADBAND SPEEDS

A mystery shopping programme to judge compliance with Ofcom's Voluntary Code of Practice on Broadband Speeds found that ISPs are meeting some aspects of the code, but not others. The code came into force in December 2008 and covers 95 per cent of UK residential broadband customers.

Results announced in March 2010 showed that 85 per cent of mystery telephone shoppers were given an estimate of the maximum speed available on their line, before signing up with a provider. However, 42 per cent needed to prompt providers for their speed late in the sale process. And some 74 per cent were not told that their actual speed was likely

to be below their maximum line speed.

We announced that we were proposing to tighten the code to address these issues, and hoped to agree a revised code with ISPs by summer 2010. If agreement is not reached, we said we would consider whether formal regulation would be necessary.

Mobile

PORTING IN A DAY

Ofcom's research shows that when mobile customers want to move to a new operator, around 71 per cent want to take their number with them.

In August 2009 we announced we wanted to make porting even quicker and simpler by reducing porting time from two working days to one. Following consultations, we were able to announce on 1 April 2010 that customers will be able to transfer their number in that timeframe. The Porting Authorisation Code (PAC) will be issued within a maximum of two hours, via text message. We expect the new changes to take effect during the first half of 2011.

MOBILE DEALS: SAVING TIME, EFFORT AND POUNDS

Good quality price comparison services are a useful tool for consumers wishing to shop around to get the best deal.

In May 2009, Ofcom awarded its third accreditation to a new comparison service for mobile phone customers: BillMonitor.

BillMonitor uses advanced statistics to find the best mobile price plans for consumers across the UK's network operators: 3, O2, Orange / T-Mobile and Vodafone. It analyses historical usage patterns to predict future usage and can keep consumers updated on the money they could save as the networks change their price plans.

Managing the UK's phone number resource

CHEAPER CALLS TO 0870 NUMBERS

0870 numbers often cost more to dial than geographic numbers (01, 02 and 03) and are used by many businesses and organisations to provide information and customer service lines. Higher prices have meant that these businesses have been able to take a cut of the charges. In future there will be strict rules on how these prices are publicised, and how customers are advised on what they will be charged.

Ofcom introduced new rules on 1 August 2009 designed

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to make calls to 0870 numbers significantly cheaper. We believe the effect of these rules will be to bring revenue sharing to an end on 0870 numbers.

CHARITIES AWARDED PAN-EUROPEAN 116 NUMBERS

Anyone in need of assistance from charities dealing with missing people, child protection or providing emotional support now only needs to remember a single number in Europe.

In October 2009, Ofcom awarded the first pan-European 116 numbers to Missing People (116 000), NSPCC's Childline (116 111) and the Samaritans (116 123). Dialed from abroad in Europe, these same numbers connect to similar national services in that country.

NEW 111 NUMBER FOR NON-EMERGENCY CALLS

In December 2009 Ofcom confirmed that it had allocated a new memorable three-digit phone number – 111 – for non-emergency NHS healthcare services, making it easier for patients to access advice for urgent, but not life-threatening, situations. Emergency services will continue to operate on 999 and 112.

Promoting media literacy, access and inclusion

THE LAUNCH OF THE DIGITAL PARTICIPATION CONSORTIUM

Following the publication of its Digital Britain report in June 2009, the Government asked Ofcom to establish and chair the Digital Participation Consortium. Its purpose is to increase the reach, breadth and depth of digital technology use, maximising digital participation and promoting its economic and social benefits.

Membership of the Consortium is open to any organisation that can use its communication channels to inform, motivate and offer outreach support to people who need it. The Consortium's larger members include the BBC, Channel 4, BSkyB, BT, UK online centres, Age UK, Race Online 2012, AOL, Virgin Media and the Post Office.

PROMOTION OF MEDIA LITERACY CONTINUES

Ofcom continues to research people's understanding and attitudes to media and communications technology as part of its work to promote media literacy. We support agencies such as the United Kingdom Council for Child Internet Safety and Get Safe Online who work to help people enjoy the benefits of the internet safely and securely.

MAKING COMMUNICATIONS EASY FOR ALL

One of Ofcom's duties is to encourage the availability of easy-to-use communications equipment and services for older people, and for people with disabilities.

In June 2009, we published research commissioned by Ofcom's Advisory Committee on Older and Disabled People. It examined how equipment manufacturers and service suppliers currently address the requirements of these users, and the barriers to meeting their needs.

Ideas that emerged from the research included:

- procurement processes which take accessibility and usability into account;
- better communication with stakeholders;
- wider access to information and mechanisms for sharing knowledge about the needs of older and disabled people; and
- marketing of accessible products and services as an ethical choice.

In October 2009, we set out next steps to ensure the availability, take-up and effective use of communications services. This followed analysis that there is more to be done to achieve widespread access and inclusion across the UK, including:

- **Services for disabled customers** – this includes an evaluation of the existing text relay service for hearing- and speech-impaired people, Ofcom's consultation on the future of TV access services and Ofcom's Switch On! resource for practitioners working with people with learning difficulties and disabilities.
- **Addressing mobile 'not spots'** – although mobile voice coverage is generally good, focus is still needed on persistently poor areas. We also announced research into technical quality issues such as mobile broadband speeds.
- **Broadband take-up and digital participation**, with the formation of the Consortium as mentioned above and engagement with government and Europe on the scope to deliver universal broadband coverage.

Market Research

Every year, Ofcom undertakes extensive and rigorous quantitative, qualitative and market research. This solid evidence-base informs and underpins our decision-making across the various sectors we regulate.

EMPOWERING CITIZENS AND CONSUMERS

COMMUNICATIONS RATHER THAN CELEBRATIONS

There's nothing like a tough recession to bring people's priorities into sharp focus. In August 2009 Ofcom published the sixth Communications Report into the £52bn TV, radio, broadband, telecoms and mobile industries. It reported that around half of the UK's consumers would sooner economise on eating out, home improvements and holidays than give up their communications services.

COMMUNICATIONS: THE ENGINE OF BUSINESS

In September 2009 Ofcom published its first comprehensive research into how UK businesses (and in particular small and medium sized businesses) use telecoms services, and their views about landline, mobile and internet services.

In total, businesses spent more than £13.9bn on telecoms services in 2008, some 45 per cent of all retail telecoms turnover. Our research found that more than 85 per cent of companies were satisfied with the range of products and services available. However:

- around half of the companies surveyed voiced frustration over inadequate customer service for landlines, the cost of landlines and poor quality connections with their mobile and internet/data services;
- 15 per cent were frustrated with poor mobile connections, 23 per cent with the reliability of their internet connection and 15 per cent with their broadband speed; and
- although businesses believe there is sufficient competition, many had difficulties negotiating a better deal and switching providers.

TOUGH TIMES, SAVVIER CUSTOMERS

Ofcom's annual Consumer Experience report, published in December 2009, painted a picture of customers finding new ways to save money on their phone, broadband and pay TV services.

They included:

- Bundled services. In 2009, 35 per cent of customers signed up for a discounted bundle (2008: 30 per cent). For some groups, this delivered savings of £88-£140 a year.
- SIM only contract deals, which free up customers to shop around for the best mobile deal. They often require just a one-month commitment.
- Longer mobile contracts that offer lower monthly fees and inclusive, or heavily discounted, handsets. In summer 2009, 42 per cent of contracts were 24 months or longer (compared with five per cent previously).

Enforcement and fines

Ofcom's first Enforcement Report, providing information on enforcement activities in 2008, was published in May 2009. It showed that our Central Operations team handled around 20,000 enquiries a month. Some were referred to our investigation teams since public complaints can provide an important source of evidence for enforcement action.

Ofcom puts a high priority on consumer protection enforcement and in March 2010, we welcomed an announcement by the Department for Business, Innovation and Skills that the maximum fine had been raised to £2m.

During 2009/10:

- We launched an investigation into Lycatel, a supplier of pre-paid international calling cards. This followed complaints to Ofcom's Advisory Team and Consumer Direct, and discussions between Ofcom and Trading Standards Offices, concerning the terms and conditions of Lycatel's cards.
- We launched an investigation into London-based Continental Telecom to find out whether it was complying with mis-selling rules. We also assessed whether its terms and conditions were fair.
- We started high court proceedings against Telephonics, having already fined it £183,898 in August 2009 for breaches of consumer rules. The fine remained unpaid in February 2010, and further breaches came to light where the company was obstructing customers' attempts to transfer their lines to other providers.
- We successfully prosecuted a pirate radio operator for installing illegal radio equipment in a London tower block. He received an ASBO, an 18-week custodial sentence suspended for 12 months, a £1,200 fine and a ban from every rooftop in London.
- We fined a Cumbrian radio station £15,000 for running a series of unfair competitions. We found the presenter had deliberately selected entrants with wrong answers, in order to prevent the prize being won too soon.
- We levied a fine of £52,500 on two adult entertainment services, RHF Productions and Portland Enterprises. On-screen text references were made to two websites owned jointly by the two companies. The websites contained extremely explicit sexual material, equivalent to BBFC R18, which could be viewed without registration or age verification.

EMPOWERING CITIZENS AND CONSUMERS

HELPING THE CONSUMER

The Ofcom Central Operations function deals with questions and complaints from viewers, listeners, customers of telecoms companies and users and licensees of wireless communications services.

During 2009/10, Central Operations logged more than 127,300 cases as a result of telephone enquiries and received more than 67,200 completed internet forms, emails, letters and faxes. Of those, around:

- 105,400 related to telecommunications;
- 62,500 related to spectrum issues and licensing;
- 24,400 related to broadcasting; and
- 2,200 were general enquiries.

Telecoms

Some 12 per cent of customer complaints were about mis-selling. These included incidents where customers were switched to a new service without their knowledge or consent, where customers signed up to a service based on information they later found to be untrue, or where customers were promised 'cash back' sums of money which did not materialise.

Also nine per cent of complaints related to poor customer service from service providers including issues such as: being given incorrect or inadequate information, having their complaint ignored, processes not being followed, and rude staff.

Around seven per cent of complaints related to customers experiencing problems with changing broadband service or the provision of service in a new property. Issues included 'tag on line' and problems with Migration Authorisation Codes – reference codes that enable customers to switch broadband provider smoothly and with minimal disruption.

Overall, consumer complaints included:

- mis-selling;
- poor customer services;
- migration;
- early contract termination charges;
- silent calls; and
- problems with loss of service

Where appropriate, we meet with companies to discuss ways

in which their service to customers can be improved. Details of companies that are persistently a cause of customer complaints are escalated for potential formal investigation.

Spectrum

Central Operations dealt with more than 62,500 enquiries from users and providers of radiocommunications services, as well as other members of the public. These related to:

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

Broadcasting

Our broadcasting team logged 24,400 complaints from the public.

The greatest cause for complaint about television and radio programmes was material which viewers or listeners found did not meet generally accepted standards, including racist comments, strong language, sexual portrayal and material causing religious offence.

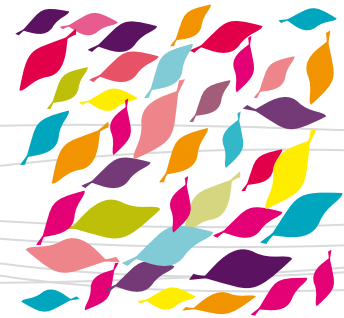
Concerns about competitions and voting were also raised.

Around 24 per cent of complaints received were about *The X Factor* and around four per cent of complaints received were about *Big Brother 10*.

Other programmes generating significant complaints were:

- *Afternoon Live*
- *Britain's Got Talent*
- *Dancing on Ice*
- *Question Time*
- *Coronation Street*
- *I'm a Celebrity, Get Me Out Of Here*
- *The Alan Titchmarsh Show*
- *Eastenders*

SIMPLIFYING REGULATION AND MINIMISING ADMINISTRATIVE BURDENS



DEREGULATION: A BUNDLE OF GOOD NEWS

One of the last pieces of old-style retail fixed line regulation was swept away in September 2009, allowing BT to offer discounted bundles of services, including landline, broadband, digital TV and other services.

This was possible because we judged that BT no longer has 'significant market power', as UK consumers enjoy genuine competition in the market. Some 12 million people now use other providers such as Virgin Media, BSkyB and Talk Talk.

As choice has gone up, so bills have come down. Our research showed that the cost of calls from a landline has fallen from £25.04 a month in 2003 to £21.57 in 2008.

EASING RULES ON AIRTIME SALES

Historically, ITV1, Channel 4 and Five have been required to comply with a 'must-sell' rule. They have had to make all their commercial airtime available for sale, rather than withholding it. Broadcasters have also been restricted in a particular type of selling ('conditional selling') when selling bundles of airtime across a portfolio of channels.

Since the rules were last reviewed in 2003, there have been significant developments in the TV sector: the number of channels has increased substantially, fragmenting audiences and giving media buyers many more options.

In March 2010, we opened a consultation that proposed removing the must-sell restriction. We also proposed that any anti-competitive effects from bundling, should they arise, would be best addressed on a case-by-case basis.

MAXIMISING OUR IMPACT ON INTERNATIONAL POLICY DEVELOPMENT



Making a difference internationally and nationally

Ofcom's activities and those of the companies it regulates are increasingly influenced by international developments. We engage closely with European institutions, national communications regulators and international partners. We do this with a view to influencing the development of international regulatory frameworks within which the UK, Ofcom and our stakeholders operate to ensure they are practical, proportionate and best serve the interests of UK and EU citizens and consumers.

We represent the UK on radio spectrum issues in key international groups and participate in international fora on both telecoms and broadcasting matters. We also seek to learn and to share regulatory experiences.

During the course of 2009/2010 we:

- Worked closely with the UK Government and other European regulators on the review of the EU regulatory framework for electronic communications, which was agreed in November 2009. We will continue to provide support to the Government during implementation.
- Supported the establishment of the new Body of European Regulators in Electronic Communications (BEREC), which has replaced the European Regulators' Group (ERG), and contributed to their work programme. Key issues in 2009 included next generation access, switching, roaming, and universal service, amongst others. All these have been carried forward to 2010, and new projects have begun on net neutrality and accessibility.
- Strengthened our contribution to the work on broadcasting content regulation carried out by the European Platform of Regulatory Authorities (EPRA) through our presence on the EPRA Board.
- Engaged with other international regulatory partners and held bilateral meetings with the US, Australia, China, India and Japan to discuss common challenges.
- Led the UK input into the ITU-T sector (which co-ordinates standards for telecoms under Ministerial

Direction), and the preparation of the next International Telecommunication Union Plenipotentiary conference. Ofcom also chaired the CISP committee in the Organisation for Economic Co-operation and Development which works on regulatory policy in the communications sector.

- Chaired the joint Radio Spectrum Policy Group (RSPG) – ERG (BEREC) work on competition issues and actively participated in RSPG working groups dealing with issues including the Digital Dividend, Spectrum Pricing and Cognitive Technologies.
- Worked closely with the European Conference of Postal and Telecommunications Administrations (CEPT) and with Commission and Member State colleagues, through the Radio Spectrum Committee, to agree a harmonised approach to releasing the 800MHz band.
- Provided input into the development of the European Commission's new Digital Agenda to ensure that consumers and citizens remain at its heart.

ENGAGEMENT WITH THE NATIONS AND REGIONS

Ofcom has a statutory duty under the Communications Act to take into account in its decisions the views and interests of those who live in different parts of the United Kingdom. Ofcom maintains offices, led by a Director for each Nation, in Belfast, Glasgow and Cardiff with small teams in each location (the English Regional team, including its Director, is based in Riverside House); specifically these teams liaise with Ofcom's stakeholders in each Nation, advising Ofcom centrally on specific issues that impact on consumers and citizens in each Nation (for example, the availability and use of digital services and issues around national and local content on television and radio) as well as liaising with the devolved administrations and local elected representatives. The work of the National offices is supported by the National Advisory Committees and the Nations Committee. Details of these can be found on pages 55, 57 and 58.

SECTION C – OPERATING AND FINANCIAL REVIEW

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

Performance and evaluation

We are committed to reviewing and evaluating our performance, and then applying what we have learnt. We discuss below the various ways in which we measure our effectiveness and what the results tell us.

Unlike a private company that seeks to maximise profits on behalf of its shareholders, Ofcom does not have a single objective that lends itself to easy measurement. There are three main reasons for this. First, although our primary duty is to further the interests of citizens and consumers (including businesses) in relation to communications matters, we have a wide range of specific duties and a diverse range of stakeholders. Second, it is not always possible to distinguish the impact of regulatory decisions on market developments from the impact of a wide range of other factors. And third, deciding whether we are fulfilling our duties and are applying our regulatory principles is often subjective. This means that assessing our performance in a measurable way is not straightforward.

Wherever possible, our goal is to allow the market to deliver positive outcomes for consumers and citizens, without regulation. Ofcom remains committed to reducing and simplifying complex or unnecessary regulation, while improving the value for money that we deliver to stakeholders by continuing to improve our own efficiency. For example, on a like-for-like basis, we have succeeded in reducing our operating budget for 2010/11 by 3.6 per cent in real terms.

We review our effectiveness against two important measures:

1. market developments (especially specific outcomes for citizens and consumers); and
2. compliance with our duties, our priorities and our regulatory principles.

In addition, we measure stakeholders' perceptions of our performance, seeking their views on a wide range of issues, including the quality of our outputs and how well we have consulted.

Market developments

Ultimately, we believe that our performance should be judged by reference to the outcomes that are delivered for citizens and consumers. We measure these outcomes in a number of ways using a comprehensive and robust framework for measuring, reporting on and communicating our performance both internally and externally. This section considers first some key measures of outcomes for citizens and consumers, and then goes on to list the key publications where we report on market developments.

KEY MEASURES OF CITIZEN AND CONSUMER OUTCOMES

In several areas the market has continued to deliver good outcomes for citizens and consumers, including the following, identified in our Consumer Experience report:

- **value for money for consumers on communications services** – consumer spend on communications services fell between 2007 and 2008,

from £68.84 per month to £65.01 per month, as consumers took advantage of falling mobile tariffs and discounted bundled broadband services;

- **satisfaction levels** – satisfaction remained high across all communications services with around 90% of consumers either ‘very satisfied’ or ‘fairly satisfied’. Broadband had the lowest level of satisfaction (86%) and mobile the highest (92%); and
- **broadband availability** – over 99.9% of UK households are connected to a DSL-enabled BT local exchange and over 85% of household can also access broadband services from alternative operators offering services via local loop unbundling. Meanwhile, an upgrade to Virgin Media’s cable network means that around 49% of household have access to superfast broadband services offering speeds of up to 50Mbit/s.

But we are aware that there remain some areas of concern. For example:

- **‘not spots’** – research conducted by the Communications Consumer Panel showed that 18% of adults claim to regularly experience ‘not spot’ areas where they receive no coverage at all;
- **broadband take-up** – although our research shows that broadband take-up grew to reach 70% in 2009, that still leaves 30% of households without the service; and
- **switching** – our research showed a decline in switching levels in bundled services, with the number of consumers saying they have switched provider in the last year dropping from 24% to 13% between 2008 and 2009.

In our Annual Plan¹ we identified these areas as priorities for the year ahead. We set out a very comprehensive review of citizen and consumer outcomes in a series of separate publications, which reflect our commitment to understand what difference we are making alongside industry.

Every year we publish our flagship report, The Communications Market (<http://www.ofcom.org.uk/research/cm/cmr09/>) which provides a comprehensive picture of developments in the communications sector, and sets out several key measures of outcomes for citizens and consumers (both residential and business), including take-up, satisfaction and switching levels, and service availability.

This is supplemented by separate reports on each of the UK’s constituent nations (<http://www.ofcom.org.uk/research/cm/cmnr09/>) and a biennial report on the

International Communications Market which sets out the outcomes for UK citizens and consumers against a range of international comparators (December 2009 data - <http://www.ofcom.org.uk/research/cm/icmr09/>).

In our annual Consumer Experience report we provide a picture of how consumers have fared in the communications sector and evaluate how any issues identified have been addressed by our activities. In 2009 we also, for the first time, reported on the Business Consumer Experience (all Consumer Experience reports can be found on our website: <http://www.ofcom.org.uk/research/tce/>).

Our range of Media Literacy publications analyses the abilities of UK citizens and consumers to access, understand and create communications in a variety of contexts. We also publish reports on specific issues, such as the take-up of digital TV, and the actual download speeds that consumers can expect from their broadband provider. All these reports build on our extensive programme of market research.

We also examine the impact of particular policy initiatives. For example, in July 2009 we published an evaluation of the policy of charging spectrum fees based on administered incentive pricing (AIP). Our report, Policy evaluation report: AIP, looked to assess whether AIP:

- has facilitated the allocation of spectrum into optimal use over time, for example by encouraging trading or surrender of spectrum in lower value uses, and reducing excess demand for spectrum; or
- has disrupted the optimal allocation of spectrum, for example by causing it to be underused while demand for it exists.

We have also evaluated whether the process used to introduce AIP reflected regulatory good practice, which should also serve to limit the risks of unintended consequences from the policy.

Finally, we also consider longer term measurements of market developments in our market and strategic reviews. We must conduct market reviews at regular intervals to re-examine the relevance of regulatory decisions we have made in the past (for example the Review of the Wholesale Local Access Market – <http://www.ofcom.org.uk/consult/condocs/wla/>). Our strategic reviews take a forward look at what the appropriate regulatory approach is likely to be in specific sectors (for example, our Mobile Sector Assessment <http://www.ofcom.org.uk/consult/condocs/msa/>).

¹Progress against our Annual Plan is recorded on our website. We publish a table showing all our projects and planned outputs: www.ofcom.org.uk/about/account/reports_plans/annual_plan1011/projects/. This table is updated every quarter so that stakeholders can check when we will be publishing consultations they are interested in.

PERFORMANCE AND EVALUATION

Compliance with our objectives and regulatory principles

Ofcom's approach to regulation reflects the fast-moving nature of the communications sector. The speed with which the communications sector is changing makes it especially important for us to have clear guiding principles. We are required by the Communications Act 2003 to have regard to the principles of better regulation, namely that regulation should be transparent, proportionate, consistent, accountable and targeted only at cases where action is needed. When Ofcom was established, we built on these principles by developing a more specific set of principles to inform our day-to-day work. These are set out in Figure 1. In 2008 we also identified a set of principles for analysing the opportunity to introduce self- and co-regulation: <http://www.ofcom.org.uk/consult/condocs/coregulation/statement/>

In line with our regulatory principles, we have focused on evaluating our performance in four key areas:

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

FIGURE 1: OFCOM'S REGULATORY PRINCIPLES

When we regulate
<ul style="list-style-type: none"> 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 goal that markets alone cannot achieve.
How we regulate
<ul style="list-style-type: none"> Ofcom will always seek the least intrusive regulatory methods of achieving our objectives. Ofcom will strive to ensure that interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome. Ofcom will regulate with a clearly articulated and publicly reviewed annual plan, with stated objectives.
How we support regulation
<ul style="list-style-type: none"> 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 a market.

REDUCING REGULATION

A key element of better regulation is ensuring that regulation is properly targeted and does not impose undue burdens on our stakeholders. In December 2009, we published our annual Simplification Plan as an annex to our Draft Annual Plan. This Simplification Plan sets out all the initiatives we are taking to remove or reduce regulation. It shows how we are fulfilling our duty under Section 6 of the Communications Act to minimise the regulatory burden on our stakeholders.

Figure 2 summarises Ofcom's policy statements published during 2009/10. In this figure:

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

The figure provides an overview of Ofcom's regulatory decisions. During the past year we made a number of significant regulatory decisions. Some decisions allowed us to continue our trend of reducing regulation. Other decisions required additional or increased regulation to achieve optimal citizen and consumer outcomes.

Specifically, figure 2 shows that we are prepared to take decisive and effective action to protect citizens and consumers where necessary, for example:

- our work on Delivering Consumer Benefits in Pay TV; and
- protecting consumers from mis-selling of fixed-line telecommunications services.

It also demonstrates that we are committed to reducing regulation by, for example:

- recommending the removal of some radio ownership rules and liberalisation of some cross-media ownership rules (Report to the Secretary of State for Culture, Media and Sport on the Media Ownership Rules); and
- further deregulating fixed narrowband retail service markets (Fixed Narrowband Retail Services Markets – Identification of Markets and Determination of Market Power).

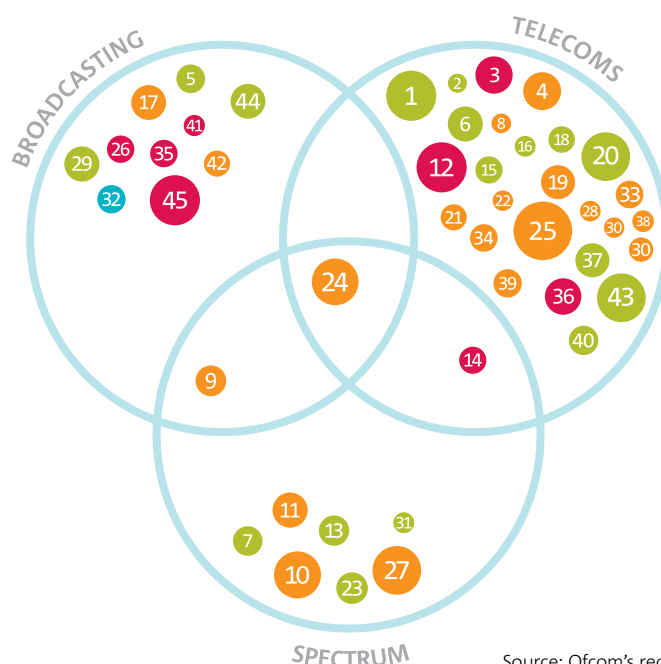
We made 16 reduced regulatory decisions in 2009/10. This is a small increase on the level in 2008/9, when there were 14 instances of this.

PERFORMANCE AND EVALUATION

FIGURE 2: OFCOM'S KEY DECISIONS – DIRECTIONS OF REGULATORY CHANGE

The size of the circles indicates the size of the market affected. The colour of the circle indicates the direction of regulation as follows:

- Increased/new
- Mixed/no change/ongoing
- Streamlined/co-regulatory
- Reduced



Source: Ofcom's regulatory log

OFCOM'S KEY DECISIONS – DIRECTION OF REGULATORY CHANGE: LIST OF STATEMENTS

1. Changes to 0870 ●
2. Consent to a waiver of BT's price notification requirement for wholesale residential analogue exchange line services ●
3. Improving Access to Alternative Dispute Resolution ●
4. A new pricing framework for Openreach ●
5. Code on scheduling of TV advertising ●
6. Variation to BT's Undertakings under the Enterprise Act 2002 related to Fibre-to-the-Cabinet ●
7. Managing the spectrum above 275 GHz ●
8. Changes to BT and KCOM's regulatory financial reporting – 2008/09 update ●
9. Review of Business Radio licence fees in Band I ●
10. Digital dividend: clearing the 800 MHz band ●
11. Digital dividend: cognitive access ●
12. Leased Lines Charge Controls ●
13. Decision to make the Wireless Telegraphy (Short Range Devices) (Exemption) Regulations 2009 ●
14. Authorisation of terrestrial mobile networks complementary to 2 GHz mobile satellite systems (MSS) ●
15. Topcomm Review ●
16. Consent to a waiver of BT's price notification requirement for wholesale business analogue exchange line services connection charges ●
17. Review of ITV Networking Arrangements ●
18. Re-prioritising BT's remaining Undertakings commitments on information systems separation ●
19. Review of the fixed narrowband services wholesale markets ●
20. Fixed Narrowband Retail Services Markets - Identification of markets and determination of market power ●
21. Review of BT's Network Charge Controls ●
22. Consent to a waiver of BT's price notification requirement for wholesale analogue exchange line services connection charges ●
23. Decision to make the Wireless Telegraphy (Ultra-Wideband Equipment) (Exemption) Regulations 2009 ●
24. Single Equality Scheme ●
25. Access and Inclusion ●
26. Audience Participation in Radio Programming ●
27. The Spectrum Plan for the London 2012 Games ●
28. The PRS Scope Review ●
29. Report to the Secretary of State (Culture, Media and Sport) on the Media Ownership Rules ●
30. BT exemption request - supply of BT Basic in Ebbsfleet ●
31. Release of the 59 – 64 GHz band ●
32. Review of procedures for handling broadcasting complaints, cases and sanctions ●
33. Mobile Evolution: Ofcom's mobile sector assessment ●
34. A Three-digit Number for Non-Emergency Healthcare Services - Designating number "111" ●
35. The regulation of video on demand services ●
36. Protecting consumers from mis-selling of fixed-line telecommunications services ●
37. Waiver of BT's price notification requirements for certain of BT's Ethernet services ●
38. Next Generation Networks ●
39. Review of the fixed narrowband services wholesale markets (2nd statement) ●
40. Charge controls for Wholesale Line Rental – implementation and cost orientation ●
41. Ofcom's rules for PPRB, and procedures for determination of disputes ●
42. Reviews of the financial terms for the Channel 3 and Channel 5 licences ●
43. Variation to and exemption from BT's Undertakings relating to FTTN ●
44. Proposed BSkyB Digital Terrestrial Television Services ●
45. Pay TV ●

- Increased/new
- Mixed/no change/ongoing
- Streamlined /co-regulatory
- Reduced

PERFORMANCE AND EVALUATION

Consultation with stakeholders

Consultations are one of the key ways in which we engage with stakeholders and enable them to influence our policy decisions.

If a consultation is too short, some of those with important views to share may not have enough time to prepare their responses. If it is too long, the market concerned may have changed dramatically. This could affect our ability to deal with an issue as quickly as the stakeholders involved would like. When we decide how long a consultation should last, we need to strike the right balance between these two considerations. There are generally three categories of consultation:

- Category 1: consultations which contain major policy initiatives and/or are of interest to a wide range of stakeholders (especially those who may need a longer time to respond); in these cases we will consult for ten weeks.
- Category 2: consultations which, while containing important policy proposals, will be of interest to a limited number of stakeholders who will have awareness of the issues; in these cases we will consult for six weeks.
- Category 3: consultations which fall within one or more of the following categories, where the time period for consultations is one month:
 - technical issues;
 - where there is a need to complete the project in a specified timetable because of market developments or other factors which require the project to be concluded within a short period;
 - the issue has already been the subject of a consultation;
 - a proposal will have a limited effect on a market; or
 - a proposal is only a limited amendment to existing policy or regulation.

Figure 3 sets out an analysis of the length of our policy consultations by sector. A longer consultation period gives stakeholders greater opportunity to respond and become involved in policy decisions. This is particularly important when the consultation issue has great significance and a high profile. Figure 3 shows that in 2009/10 half our consultation periods lasted at least ten weeks (51 per cent of consultations), similar to our performance in 2008/9 (52 per cent).

Ofcom also collects statistics on the number of responses to consultations. This is shown in figure 4. The chart illustrates

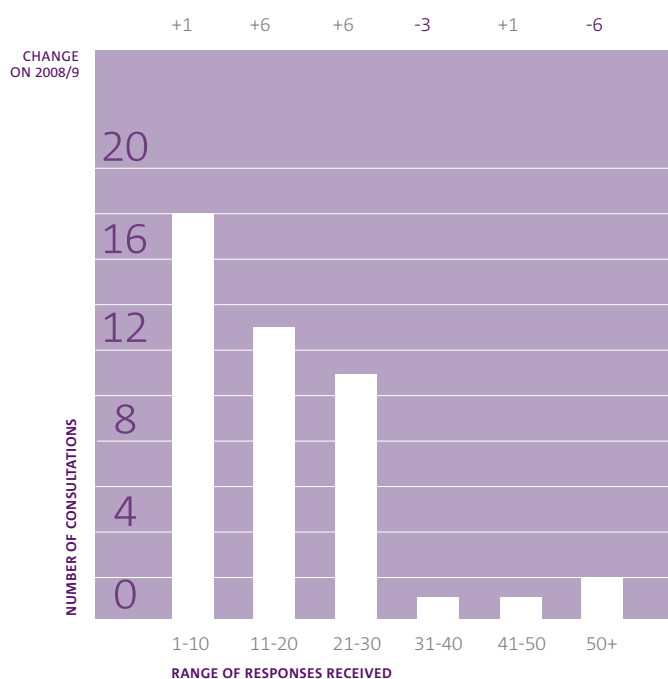
the large number of responses we have had over the year, based on the 46 consultations where we subsequently published a statement. Four consultations attracted a very wide range of responses (i.e. 31 or more). This is fewer than in 2008/9 when 12 consultations attracted 31 or more responses. But for the most part the issues we consulted on were narrower in scope and of interest to a smaller constituency of stakeholders – 39 per cent of consultations received ten or fewer responses.

PERFORMANCE AND EVALUATION

FIGURE 3: ANALYSIS OF CONSULTATION DURATION 2009/2010

	Consultation period at least 10 weeks	Consultation period less than 10 weeks (including category 2 and category 3 consultations)
Telecoms	9	19
Broadcasting	9	6
Spectrum	12	8
Other	4	-
TOTAL	34 (51%)	33 (49%)

Ofcom's consultation guidelines are published on its website (http://www.ofcom.org.uk/consult/consult_method/ofcom_consult_guide)

FIGURE 4: RESPONSES TO CONSULTATIONS

This data is based on statements that were published in 2009/10 and refer to the number of responses received on the related consultation document (which may have been published in a previous reporting year).

PERFORMANCE AND EVALUATION

Timeliness of decision-making

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

There are a number of factors that affect the length of this process, including:

- the need to give careful consideration to multiple and frequently complex submissions we receive from stakeholders;
- whether our final decision is dependent on external factors; and
- the need for us to prioritise the use of our resources.

Our decision-making process can also be affected if stakeholders submit late responses. Where stakeholders submit responses after a consultation closes we are still required to have due regard to their contents. While there are sometimes legitimate reasons for late submission, we have noted a tendency on the part of some stakeholders to use late submission for what appear to be tactical purposes.

An analysis of our decision-making time is shown in figure 5. The vast majority (85 per cent) of our statements are published within 20 weeks of the close of the consultation period, and 37 per cent within ten weeks. Changes in our performance since last year have been mixed. The number of statements published 21 or more weeks after the end of the consultation period has fallen from ten to seven since

last year. But there has been a large jump in the number of statements published between 11 and 20 weeks after consultation close (from 8 to 22).

The volume of appeals, litigation and disputes brought by some stakeholders has increased over the last two years. This has sometimes caused delays in implementing our decisions, and the consumer benefits they will bring. It has also resulted in additional challenges in defending our decisions and ensuring that they are not easily overturned.

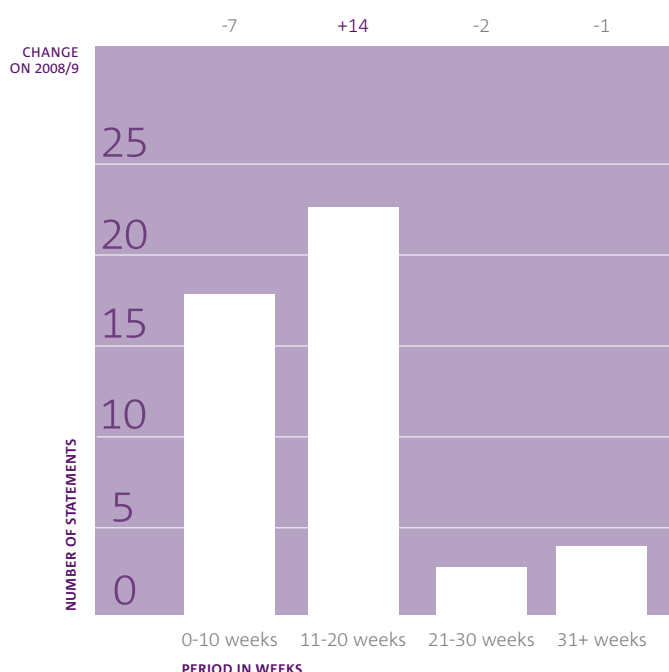
Impact Assessments

Impact Assessments (IAs) are an important part of the policymaking process. Section 7 of the Communications Act requires us to carry out an IA where we are proposing to do anything for the purposes of, or in connection with, the carrying out of our functions and we consider the proposal to be important. They ensure that in relation to our policy decisions:

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

Ofcom has a statutory duty to publish a list of the IAs carried out during the year. This list is set out in figure 6.

FIGURE 5: ANALYSIS OF THE TIME TAKEN TO PUBLISH AN OFCOM DECISION FROM THE CLOSE OF THE CONSULTATION PERIOD



Statements which were published more than 30 weeks after consultation closure:

- Changes to 0870 - in light of stakeholder comments and a related 0870 Dispute under appeal, decision deferred pending publication of a revised draft determination of the 0870 Dispute.
- Improving Access to Alternative Dispute Resolution - further analysis of our proposals was required in light of responses from stakeholders to the consultation.
- Authorisation of terrestrial mobile networks complementary to 2 GHz mobile satellite systems (MSS) – deferred to ensure consistency with decision by the European Parliament and the Council (adopted late May 2009).
- Proposed BSkyB Digital Terrestrial Television Services – deferred pending publication of the conclusion of our investigation into the pay TV market.

PERFORMANCE AND EVALUATION

FIGURE 6: IMPACT ASSESSMENTS CARRIED OUT DURING 2009/10

Ofcom statements published in 2009/10 in which the earlier consultation included an impact assessment
Changes to 0870
Improving Access to Alternative Dispute Resolution
A new pricing framework for Openreach
Code on scheduling of TV advertising
Managing the spectrum above 275 GHz
Changes to BT and KCOM's regulatory financial reporting – 2008/09 update
Review of Business Radio licence fees in Band I
Digital dividend: clearing the 800 MHz band
Digital dividend: cognitive access
Leased Lines Charge Controls
Decision to make the Wireless Telegraphy (Short Range Devices) (Exemption) Regulations 2009
Authorisation of terrestrial mobile networks complementary to 2 GHz mobile satellite systems (MSS)
Topcomm Review: Statement
Re-prioritising BT's remaining Undertakings commitments on information systems separation
Review of the fixed narrowband services wholesale markets
Fixed Narrowband Retail Services Markets - Identification of markets and determination of market power
Review of BT's Network Charge Controls
Decision to make the Wireless Telegraphy (Ultra-Wideband Equipment) (Exemption) Regulations 2009
Audience Participation in Radio Programming
Report to the Secretary of State (Culture, Media and Sport) on the Media Ownership Rules
BT exemption request - supply of BT Basic in Ebbsfleet
Release of the 59 – 64 GHz band
Review of procedures for handling broadcasting complaints, cases and sanctions
Mobile Evolution: Ofcom's mobile sector assessment
A Three-digit Number for Non-Emergency Healthcare Services - Designating number '111'
The regulation of video on demand services
Review of the fixed narrowband services wholesale markets
Charge controls for Wholesale Line Rental – implementation and cost orientation
Award of the band 872-872 MHz paired with 917-921 MHz
Variation to and exemption from BT's Undertakings relating to FTTP
Proposed BSkyB Digital Terrestrial Television Services
Pay TV

PERFORMANCE AND EVALUATION

FIGURE 6: IMPACT ASSESSMENTS CARRIED OUT DURING 2009/10 (CONTINUED)

Ofcom consultations published in 2009/10 which included an impact assessment and where no statement has been published
Radio: the implications of Digital Britain for localness regulation
Crown Recognised Spectrum Access in 3400 to 3600 MHz
Wholesale mobile voice call termination
Replicability and the regulation of BT's retail low bandwidth digital leased lines
Clearing the 800 MHz band: Funding for programme-making and special-events
Wholesale charges for Number Translation Services and Premium Rate Services
Routing calls to ported telephone numbers
Mobile Number Portability
2009 Review of Television Access Services
Participation TV 3
World Radiocommunication Conference 2012 (WRC-12)
Notice of Proposed Changes to Satellite Services licences resulting from the AVMS Directive
A Review of Consumer Complaints Procedures
Application for a variation to 3G licences (and consequent proposal to vary draft 2GHz MSS/CGC Base station licences)
Applying spectrum pricing to the Aeronautical sector
Changes to BT and KCOM's regulatory and financial reporting 2009/10 update
Content management on the HD Freeview platform
Licence Exemption of Wireless Telegraphy Devices - candidates for 2010
Proposals for the setting of regulatory fees for video on demand services for the period up to 31 March 2011
Review of the wholesale local access market
Review of the wholesale broadband access markets
Airtime Sales Rules Review
SRSP: A revised framework for Spectrum Pricing

In July 2005, we published guidelines *Better policy-making: Ofcom's approach to impact assessment* that emphasised Ofcom's commitment to conducting assessments as an integral part of the policy-making process and stated that we expected to carry out IAs in the great majority of our policy decisions.

Sixty-three per cent of consultation documents contained a clearly-labelled impact assessment, set out in a specific section or annex of the consultation document. Consultation documents without a specific IA may still include implicit assessments of impact integrated throughout the document. In addition, in some circumstances it may not be either necessary or appropriate to conduct an IA.

We will continue to ensure that impact assessments are carried out and properly presented in all relevant cases. We plan to publish revised guidelines during 2010 to improve the effectiveness of IAs and reflect changes in best practice.

STATISTICAL DATA

Service delivery and enforcement

As well as developing regulatory 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:

- a) Spectrum licensing – issuing licences (categories A, B and C) and KPIs;
- b) Spectrum operations – spectrum engineering & enforcement activity and KPIs;
- c) Broadcasting –
 - i. Programme complaints (including KPIs)
 - ii. Programme standards
 - iii. Fairness and privacy (including KPIs)
 - iv. Content Sanctions Committee;
- d) Investigations programme – KPIs; and
- e) Numbering – KPIs for applications for telephone numbers.

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

SPECTRUM LICENSING AND KPIs

Ofcom issues Wireless Telegraphy Act (WT Act) licences. Most of these licence types are divided into three larger categories: A, B and C. 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. Overall customer service satisfaction levels are at 82 per cent, with 76 per cent satisfied with the speed of receipt of licences.

- Category A are simple licences which involve no frequency assignment, site clearance or international co-ordination. The KPI for Category A is for 100 per cent of valid licence applications for new or varied services to be awarded or rejected (with explanation) within seven or ten days of receipt by Ofcom.
- Category B are more complex licences which involve frequency assignment but do not involve site clearance

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

- Category C are the most complex licences involving frequency assignment and site clearance and/or international co-ordination. 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.

Ofcom is required to report on its spectrum management activity in detail; the tables in Annex 1 on pages 104 to 106 set out the non-discretionary and discretionary WT Act licensing activity undertaken during the period under review.

SPECTRUM OPERATIONS – SPECTRUM ENGINEERING AND ENFORCEMENT KPIs

Ofcom's Spectrum Engineering and Enforcement (SE&E) team's role is to take action against illegal transmissions, to resolve harmful interference and to undertake compliance audits of radiocommunications installations in every part of the UK. Formerly Ofcom Field Operations, the team has been renamed to accurately reflect the changing nature of its work. As part of this, SE&E have implemented the ISO 9001 Quality Management system and achieved certification to this standard in March 2010.

Details of Spectrum Engineering and Enforcement activities and key performance indicators are given in Annex 2 on pages 107 and 108.

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.

Ofcom reached decisions on a total of 28,281 programme complaints, of which 28,072 were complaints about programme standards (including issues relating to political advertising and the scheduling of television advertising), and 209 were complaints about alleged unfairness and/or

STATISTICAL DATA

unwarranted infringements of privacy.

Individual complaints received by Ofcom are assigned to cases. A case is opened when Ofcom is assessing or investigating a specific programme or issue. A total of 10,888 cases (28,281 complaints) were closed in the period under review. A case is closed once Ofcom has reached a decision on the issue.

Programme standards

Of the 10,679 closed cases (28,072 complaints) relating to programme standards:

- 152 cases were found to be in breach either of the Broadcasting Code, other Ofcom codes or of licence conditions. Of these, six cases were subject to statutory sanctions (involving six separate broadcasters);
- 13 cases were resolved; and
- 10,514 cases were not in breach or out of remit.

Number completed within target:

- Straightforward cases¹ – 99.2% closed with 30 working days (target: 80%)
- Complex cases – 72.1% closed within 60 working days (target: 80%)

Fairness and privacy

The Fairness Committee² was until December 2009 Ofcom's most senior decision-making body with respect to fairness and privacy cases. It was a committee of Ofcom (with delegated powers from the Ofcom Main Board) and consisted of a minimum of three members, all of whom are drawn from the Content Board. It considered cases referred to it by the Executive (for example, due to their complexity). It also reviewed 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: 209

Of the fairness and privacy cases closed, eight were considered by the Fairness Committee.

Of these:

- five were partly upheld; and
- three were not upheld.

Decisions in relation to the remaining 201 closed fairness and privacy cases were reached by the Executive.

Of these:

- 15 were upheld (of which 11 were partly upheld);
- 55 were not upheld;
- nine were resolved (following appropriate action taken by the broadcaster); and
- 122 were not entertained or discontinued after entertainment.

Number completed within target:

- Straightforward cases³ – 92.9% closed within 80 working days (target: 80%)
- Complex cases – 73.5% closed within 130 working days (target: 80%)

Content Sanctions Committee

During the period covered by this report, cases which the Executive believed warranted the consideration of a statutory sanction were referred to the Content Sanctions Committee⁴, comprising of a maximum of five members two of whom were drawn from the Ofcom Board and three from the Content Board. The Content Sanctions Committee was quorate with three Content Board Members. The Content Sanctions Committee was chaired by the Chairman of the Content Board.

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

The Content Sanctions Committee decided to impose a financial penalty on⁵:

- British Broadcasting Corporation (BBC) in respect of *The Russell Brand Show* on its service BBC Radio 2 – £150,000 and a Direction to broadcast a statement of Ofcom's

¹ For standards cases, a case is called 'straightforward' if Ofcom decides, after an initial assessment, that it does not raise any potential issues warranting further investigation. A case is called 'complex' if Ofcom decides that there are issues warranting further investigation and/or Ofcom requests formal comments from the broadcaster.

² On 16 December 2009, the Fairness Committee was replaced by the Broadcasting Review Committee (BRC). On that date Ofcom introduced new procedures for handling fairness and privacy investigations, broadcasting standards investigations and other licence-related cases. Under the new procedures the Fairness Committee was replaced by the BRC. For the period 16 December 2009 to 31 March 2010, however, no fairness and privacy cases were referred to or considered by the BRC. For further information about the BRC, please visit: <http://www.ofcom.org.uk/about/csg/obrc/>.

³ For fairness and privacy investigations a case is called 'straightforward' if Ofcom adjudicates upon the complaint following one exchange of written statements (or less), or complaints resolved by way of 'appropriate resolution'. 'Complex' cases are those adjudicated upon following two exchanges of written statements and/or a hearing.

STATISTICAL DATA

findings on one occasion

- Channel Television Limited in respect of *The British Comedy Awards 2004* and *The British Comedy Awards 2005* broadcast on ITV1 – £80,000 and a Direction to transmit Ofcom's statement of finding on one occasion
- RHF Productions Limited in respect of its services Red Hot+, Red Hot Amateur, Red Hot Girl Girl, Red Hot Just 18, Red Hot DD and Red Hot Fetish – £25,500, and Portland Enterprises (C.I.) Limited in respect of its service Television X2 – £27,500
- Springdoo Media Limited in respect of its service Friendly TV – £12,000 and User Generated Broadcasting Limited in respect of its service Bedroom TV – £12,000
- Playboy TV UK/Benelux Limited in respect of its service Playboy One – £22,500
- Lakeland Radio Limited in respect of its service Lakeland Radio – £15,000 and a Direction to transmit Ofcom's statement of finding on one occasion

⁴ On 16 December 2009 Ofcom introduced new procedures for the consideration of statutory sanctions in broadcasting or other licence-related cases. Under the new procedures the Content Sanctions Committee (CSC) was replaced by the Broadcasting Sanctions Committee (BSC). All cases reported on in this period were considered by the CSC. For further information about the BSC, please visit: <http://www.ofcom.org.uk/about/csg/obsc/>.

⁵ All financial penalties imposed by the Content Sanctions Committee are payable to HM Paymaster General for the benefit of the Exchequer. For more information please see the Ofcom website: <http://www.ofcom.org.uk/about/csg/obsc/>

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INVESTIGATIONS PROGRAMME – KPIS

Ofcom's investigations programme deals with complaints about anti-competitive behaviour, breaches of certain regulatory rules and regulatory disputes. The following table shows Ofcom's activities in conducting enquiries and investigations during 2009/10 and how we have performed against our statutory and published targets. This reflects the picture as at 31 March 2010.

It should be noted that the number of cases recorded in the table tends to be small and the reported KPIs can be volatile as a result. More information on the investigations programme is set out in our six-monthly reports, Ofcom's Investigations Activity (<http://www.ofcom.org.uk/bulletins/crt/>).

In July 2009 Ofcom restructured its investigations activities splitting this work between the Competition Group Investigations Team and the Consumer Affairs Investigations Team. The data in the table below covers the performance of both teams.

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 Ofcom achieved 100 per cent allocation within targets.

Activity & target	Performance against targets	Ongoing activity
Enquiries <ul style="list-style-type: none"> Completion within 15 working days Completion within 8 weeks for competition law 	<ul style="list-style-type: none"> 25 enquiries handled and closed in the year (7 led to disputes being accepted, 4 led to other investigations, and 14 resulted in no further action) 13 of the 25 enquiries (52%) were closed within target. All others extended for a short period with agreement 	<ul style="list-style-type: none"> One enquiry opened during the reporting period remains ongoing and has exceeded target
Disputes <ul style="list-style-type: none"> Completion within 4 months 	<ul style="list-style-type: none"> A total of 19 disputes were handled in the course of the year 11 disputes were resolved in the year 8 of the 11 disputes (73%) were concluded within target 	<ul style="list-style-type: none"> 8 disputes were ongoing at end of year 5 were within target Exceptional circumstances applied to the 3 other disputes
Competition law investigations <ul style="list-style-type: none"> Completion within 6 months for non-infringement or 12 months for infringement 	<ul style="list-style-type: none"> No cases were opened or closed in the year 	<ul style="list-style-type: none"> There are 2 ongoing investigations that have exceeded target
Other investigations and enforcement programmes <ul style="list-style-type: none"> Individual investigations completion within 4 months for all except own-initiative or Enterprise Act which have a target of completion in 6 months Enforcement programmes are not subject to time targets 	<ul style="list-style-type: none"> 4 investigations were opened and closed in year All 4 (100%) within target 	<ul style="list-style-type: none"> There are 3 ongoing individual investigations Two of these 3 are within target In addition, there are 5 ongoing enforcement programmes

FINANCIAL PERFORMANCE

As part of Ofcom's drive to reduce the regulatory costs to licensees and taxpayers, Ofcom has made savings of £7.5m against its budget for the year to 31 March 2010 and has delivered an actual operating outturn of £129.3m.

Ofcom has also invoiced and collected a total of £195.9m for the public purse in the year from Wireless Telegraphy Act licensees, additional payments from broadcasting licensees and the levying of fines and penalties on stakeholders.

In addition, Ofcom has set a budget for 2010/11 which reflects a sixth consecutive real terms reduction in its underlying annual operating costs with further planned efficiency savings across property, IT services and procurement.

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 the following sources:

- television broadcast licence fees;
- radio broadcast licence fees;
- administrative charges for electronic networks and services and the provision of broadcasting and associated facilities;
- funding to cover Ofcom's operating costs for spectrum management in the form of grant-in-aid from the Department for Business, Innovation and Skills; and
- grant-in-aid funding to cover statutory functions and duties which Ofcom must discharge, but for which there is no matching revenue stream.

Ofcom also receives rental income from properties surplus to its requirements, bank interest in respect of bank balances and income from services incidental to Ofcom's statutory duties.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

With effect from 1 April 2009, Ofcom was required to report its consolidated financial statements in accordance with IFRS as adopted by the EU. The transition date for the adoption of IFRS was 1 April 2008. Note 2 in Section E of the Annual Report sets out the impact of the conversion from UK Generally Accepted Accounting Practice (UK GAAP) to IFRS on the Statement of Financial Position.

OPERATING RESULTS

In 2009/10 Ofcom made a saving of £7.5m against its operating budget of £136.8m. This is a result of a pay freeze across the organisation, reductions in performance pay, significant procurement savings delivered in part through the implementation of framework agreements, savings through property management, improved efficiencies as a result of the completion of the project to integrate Ofcom's IT systems and the decision by the Government not to progress with merging Postcomm into Ofcom.

Note 3 of Section E sets out a reconciliation which highlights the differences between the total operating expenditure as presented in the Statement of Income and Expenditure and Ofcom's actual operating outturn of £129.3m. The note also reconciles income on the same basis and presents Ofcom's actual operating outturn and income for 2009/10 by sector.

OPERATING INCOME

Ofcom's operating income was £132.7m in 2009/10 (2008/9: £131.9m). Significant changes from the previous year include:

- An increase of £3.8m in the regulatory charges to the network and services sector. Additional work has been undertaken in response to the high level of demand for economic regulation during a period of great change, the costs of which are reflected in charges for the sector. Examples of this work include necessary research on next generation broadband, additional work on migration and protection from mis-selling, and promoting competition through proposing further cuts in mobile termination rates.
- A decrease of £1.8m in the regulatory charges to the broadcasting sector. This is due to a lower volume of planned work on the programme of market impact assessments and the completion of the Public Service Broadcasting (PSB) review in 2008/9.

FINANCIAL PERFORMANCE

- A decrease of £0.7m in spectrum clearance grant-in-aid claims as a result of no clearance payments being made in the year.
- A decrease of £0.6m in spectrum management grant-in-aid largely as a consequence of the successful completion of the project to integrate Ofcom's IT systems.

In addition, Ofcom received lower interest on bank balances during 2009/10 totalling £0.3m (2008/9: £1.3m). This reduction is a direct consequence of the low interest rates that prevailed in the year.

OPERATING EXPENDITURE

Ofcom's total operating expenditure in the Statement of Income and Expenditure in 2009/10 decreased by £2.5m when compared to 2008/9. Significant changes from last year were as follows:

- Other operating costs have decreased by a net £6.4m mainly due to:
 - The successful completion of the project to integrate Ofcom's IT systems during 2009/10.
 - Reduced spend on professional fees and audience and consumer research due to significant procurement efficiencies and fewer large projects being undertaken; notably the PSB review and the Digital Dividend Review.
 - Reduction in premises costs following the review of the onerous lease provision.
 - No spectrum clearance payments made to licence holders as part of our planned programme for spectrum liberalisation.
- Reported staff costs have increased by £3.9m despite the pay freeze and reducing the level of performance pay. This is largely due to the increase in headcount to bring Ofcom closer to its budgeted complement. The increase is also due in part to the accounting treatment, required under IAS 19, to accrue for untaken holiday; this accounting adjustment is not included in the charges to stakeholders.

SURPLUS FOR FINANCIAL YEAR

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

The surplus for the financial year after tax recorded in the Statement of Income and Expenditure for the year under review was £11.0m (2008/9: £3.3m). This surplus is required to cover expenditure not reflected in the Statement of Income and Expenditure, including capital expenditure

and contributions to the two defined benefit pension plans.

2010/11 TARIFFS

On 31 March 2010, Ofcom published the Tariff Tables for 2010/11, which were based on an estimated operating expenditure outturn for 2009/10 of £130.2m.

A total of £6.6m, the difference between the original budget of £136.8m and the estimated operating expenditure outturn, is already being passed back to stakeholders in 2010/11 as part of the current regulatory tariffs or in reduced grant-in-aid claims.

For 2010/11 Ofcom's total budget is £142.5m. This includes funding for a number of new responsibilities required by Government. In particular, the introduction and enforcement of a code to tackle online copyright infringement. It also includes deficit repair payments to the pension schemes of the legacy regulators Ofcom was required to take on by Parliament.

Excluding the additional items, Ofcom's core operating budget for 2010/11 is £127.5m. On a like for like basis, this is 3.6% lower in real terms than our budget for 2009/10.

The budget is based on an adjusted cash basis, which includes capital expenditure and actual contributions to pension schemes, but excludes depreciation.

Sector regulatory fees will specifically change by:

- an average decrease of 0.8% (3.1% real terms decrease) for the TV sector;
- an average increase of 1.3% (1.1% real terms decrease) for the radio sector; and
- an average increase of 19.8% (17.0% real terms increase) for network and service operators.

In addition to a large volume of work related to the transition from current generation to next generation networks, Ofcom has faced an increasing operational and financial challenge over recent years from the marked increase in both disputes and litigation brought by many stakeholders. Significant resources have been devoted to these matters, with a consequent need to increase resourcing overall to fulfil Ofcom's other ongoing statutory regulatory functions. The increase in disputes and litigation has mainly been from telecoms operators and the resulting incremental costs must be recovered from the relevant stakeholder sector in accordance with our statement of charging principles.

PENSIONS

Ofcom's primary means of providing pension benefits is through a defined contribution pension allowance that is provided to all new employees and to those colleagues from the legacy regulators who have chosen this option. This allowance may be used to contribute to the Ofcom defined contribution stakeholder pension plan. Over 80 per cent of Ofcom colleagues are employed on terms with access

FINANCIAL PERFORMANCE

to a stakeholder pension plan. Ofcom was required by Government to provide colleagues from legacy regulators with the opportunity for membership of a defined benefit pension scheme.

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. Notes 1L and 24 in Section E provide further detail.

The latest actuarial valuations, as at 1 January 2007 for the Ofcom (former ITC) Pension Plan and 31 March 2009 for the Ofcom Defined Benefit Pension Plan, highlighted a combined funding deficit of £27m. The actuarial valuation as at 31 March 2009 for the former ITC Pension Plan is nearing completion and must be completed and approved by 30 June 2010. However, the financial statements show a surplus of £2.5m, primarily because the pension liabilities under the financial statements are prepared on the basis that the liabilities are discounted in line with the yields on high-quality bonds which, under current market conditions, differ significantly from the approach used for determining Ofcom's contributions. This also reflects the significant movements in financial markets since the date of the actuarial valuations.

Ofcom made and continues to make cash contributions to the Ofcom Defined Benefit Plan and the Ofcom (former ITC) Pension Plan on the basis of the actuarial valuations. Cash contributions, rather than the amount charged to operating surplus as calculated under IAS19, are included in operating expenditure outturn used to calculate the tariffs charged to stakeholders each year.

During the year, contributions to the two defined benefit pension plans amounted to £14.0m which was paid into a trust account. Funds transferred to and held in the trust account can only be paid into either of the two defined benefit pension schemes.

ADDITIONAL FUNDS COLLECTED ON BEHALF OF HM TREASURY

In 2009/10, Ofcom invoiced and collected £195.9m (2008/9: £223.0m). This is passed to the public purse. The revenue is collected from three sources:

- Wireless Telegraphy Act licence fees;
- Additional payments from television and radio licensees; and
- Financial penalties.

Ofcom prepares a separate set of Financial Statements for the purposes of Section 400 of the Communications Act 2003.

At 31 March 2010, invoices in respect of spectrum fees amounting to £70.0m (2008/9: £60.7m) remained unpaid. A significant proportion of these amounts are due by way of installment payments. At the date of the Statement of

Financial Position, an amount of £0.9m was outstanding for more than 12 months from Inquam Telecom (Holdings) Limited. During 2009/10 a winding up order was made against Inquam Telecom (Holdings) Limited.

LONDON 2012 OLYMPIC GAMES AND PARALYMPIC GAMES

The 2009/10 accounts include the first full year of Ofcom's programme of work for the London 2012 Olympic Games and Paralympic Games. Ofcom is responsible for organising a full spectrum plan for the London 2012 Olympic Games and Paralympic Games which will take place between 27 July and 9 September 2012, for arranging all the licences in good time in support of the plan and for ensuring key wireless services are free from harmful interference. These responsibilities are being carried out in line with the two guarantees given by the UK Government to the International Olympic Committee (IOC) in support of London's bid for the Games. This guarantees the allocation of the spectrum required for the organisation of the Games and the waiving of fees otherwise payable for that spectrum by members of the Olympic family.

During 2009/10, Ofcom completed the design phase of its Olympic preparation programme and entered the build phase. We published the first version of the spectrum plan in October 2009, agreed a licensing approach, designed the IS tools for technical assignment and licence administration, and in addition completed the evaluation and selection of the sensor equipment required for optimal interference management during the Games. During next year we will have completed the Licence Assignment Plan, implemented the new IT systems which support it and rolled out our sensor network for monitoring and direction-finding. Our large-scale trial events begin in the summer of 2010, and the integrated cross-organisational test events in summer of 2011.

INVESTMENTS IN FIXED ASSETS

The capitalised costs of the project to integrate Ofcom's IT systems are reflected within intangible assets as at year end. Assets under construction as at 31 March 2010 amounted to £1.7m (2008/9: £0.3m) and includes the spectrum monitoring solution being developed in preparation for the London 2012 Olympic Games and Paralympic Games.

PAYMENTS OF SUPPLIERS

Ofcom's target is to continue to pay all suppliers' invoices, not in dispute, within ten days in line with the Government pledge which came into force in December 2008. In addition to small and medium suppliers, Ofcom also included large suppliers to encourage them to pay their small business suppliers within the shorter timeframe.

For 2009/10 we achieved on average a performance of 97.7 per cent against these targets (2008/9: 98.6 per cent).

SECTION D - STATEMENT OF ACCOUNTS AND CORPORATE GOVERNANCE

Foreword

REPORT OF THE BOARD

The Board presents its Report and the audited financial statements for the year ended 31 March 2010.

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 Business, Innovation and Skills and for Culture, Media and Sport. The Accounts cover the period from 1 April 2009 to 31 March 2010.

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 6 and 7, the Chairman of the Content Board's Report on pages 12 to 14, the Chief Executive's Report on pages 8 to 11 and the Operating and Financial Review on pages 32 to 47 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 71 to 103.

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 statutory audit for 2009/10 cost £103,000 and the Section 400 accounts audit £17,000. 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 required steps 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 50 and 51. Details of Members' remuneration are set out on pages 64 to 70.

MEMBERS' INTERESTS

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

EVENTS AFTER REPORTING PERIOD

There were no reportable events between the date of the Statement of Financial Position and the date when the accounts were certified. The financial statements do not reflect events after this date.

OFCOM MISSION AND VALUES

Ofcom's commitment to its mission and values is shared by Board Members and Ofcom colleagues. The purpose of the shared mission and values is to ensure each Board Member and colleague undertakes Ofcom's work by reference to a clear set of core values.

Colleagues across the organisation were instrumental in developing the six values that reflect Ofcom's desire to work in an open, effective and people-driven way. In working in this way Ofcom strives to be dynamic, responsive and commercially aware; Ofcom values incisive thinking, rigorous evidence-based analysis and engagement with stakeholders. Ofcom's values are: Communicating openly and honestly; Listening with an open mind; Making a difference; Empowering and prioritising; Investing in and supporting our colleagues; and Genuine collaboration.

COLLEAGUE INVOLVEMENT AND CONSULTATION

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

- the Ofcom Colleague Forum, an information and consultation forum which is made up of representatives of colleagues from across Ofcom and which meets regularly with senior management at Joint Consultative Group meetings (which include two members from the Partner Union);
- the Ofcom intranet, which is available to all colleagues in all of Ofcom's offices;
- presentations hosted by senior managers during which new strategic initiatives are explained to colleagues and updates are provided regarding continuing projects;

- regular inter-group meetings both to listen to colleagues and to disseminate information; and
- regular messages from the Chief Executive.

EMPLOYMENT POLICIES, PERFORMANCE DEVELOPMENT AND PUBLIC SECTOR DUTIES

Ofcom is committed to ensuring that all colleagues are treated fairly, with dignity and respect. The full suite of HR policies has been reviewed to ensure that they are up-to-date and consistent with the organisational values, as well as the requirements of employment law.

Ofcom's ability to fulfil its regulatory duties is built on the quality, commitment and effectiveness of its people. To ensure this, Ofcom has, in consultation with colleagues, refined its behavioural competency framework and developed an organisation-wide set of skills competencies. In addition, Ofcom has developed a series of leadership development modules on the skills and practice of effective conversations; this will be implemented for all colleagues with people management responsibilities and is aimed at developing and enhancing people management skills.

DAYS LOST DUE TO ABSENCE

Ofcom encourages a culture where good attendance is expected and valued, however, it recognises that from time to time absences for medical reasons may be unavoidable. Ofcom aims to treat its staff who are ill with sympathy and fairness and where possible to provide them with support which will enable them to recover their health and attend work regularly. In 2009/10, the number of working days lost was 3.46 days per annum per employee. This compares favourably to the public sector average of 9.7 days per annum per employee.

BRITAIN'S TOP EMPLOYERS

For the third year running, Ofcom's commitment to HR excellence has been recognised through an award in the 'Top Employers UK' survey. This year Ofcom was placed 15th out of the 59 organisations that took part in this survey, carried out annually by leading international research firm, CRE.

OFCOM'S COMMITMENT TO EQUALITY, DIVERSITY AND HUMAN RIGHTS

Ofcom is determined to promote equality, diversity and human rights inside the organisation and in the wider sectors it regulates, in line with its statutory duties. Its objective is to embed these duties so that they become fundamental to the way Ofcom operates.

After consultation Ofcom published its Single Equality Scheme (SES) during the year, setting out its policies and priorities to meet the requirements for race equality, disability equality and gender equality schemes and to implement these in an inclusive way which takes account of religion and/or belief, sexual orientation and age. The SES action plan ensures that Ofcom has specific and measurable objectives which will be kept under regular review.

ENVIRONMENTAL ISSUES

Following an initial carbon audit in 2007, Ofcom committed to an overall carbon reduction target of 25 per cent by 2012/13. A second carbon audit in 2009 showed that Ofcom has already achieved a 15 per cent reduction in its carbon emissions, primarily due to substantial energy savings. Ofcom will continue to monitor its progress in subsequent years and undertake further activities which align with environmental best practice.

In 2009, Ofcom's commitment to carbon reduction was recognised by the attainment of Carbon Trust Standard certification for its London office.

STATEMENT ON HEALTH AND SAFETY POLICY AND PRACTICE

The Chief Operating Officer has responsibility for health and safety within Ofcom. The Assistant Corporation Secretary is Chair of the Health and Safety Committee which meets quarterly and reports to the Operations Board. During the reporting year one injury was reported to the Health and Safety Executive.

DATA PROTECTION

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

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 continues to review its publication scheme to make a wider range of information readily accessible on its website. During the period under review, Ofcom received 765 requests for information and, in keeping with the Act's purpose to foster a culture of openness, Ofcom provided all or part of the information requested in 85 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.

Colette Bowe *Chairman*

Ed Richards *Chief Executive*

16 June 2010

THE OFCOM BOARD



COLETTE BOWE

Colette Bowe became Non-Executive Chairman of Ofcom in March 2009. She is Chair of Ofcom's Nominations Committee and is a Member of Ofcom's Remuneration and Risk and Audit Committees. She trained as an economist and has held a number of senior roles in the public and private sectors. She began her career at the Department of Trade and Industry and subsequently worked at the Independent Broadcasting Authority, the Securities and Investment Board, as Chief Executive of the Personal Investment Authority and as Executive Chairman of the European Asset Management Business at Robert Fleming. She chaired Ofcom's Consumer Panel from its inception in 2003 to December 2007. She is currently Chairman of Electra Private Equity plc, a Board Member of Morgan Stanley Bank International, London and Continental Railways, Axa Deutschland GmbH, The UK Statistics Authority, The National Institute for Economic and Social Research, Camden People's Theatre, and a Governor of Bancroft's School.



PHILIP GRAF CBE

Philip Graf is the Non-Executive Deputy Chairman of Ofcom. He is Chair of Ofcom's Content Board, Radio Licensing Committee, DTT Allocation Committee and Broadcasting Sanctions Committee and is also a Member of Ofcom's Remuneration, Risk and Audit and Nominations Committees and by rotation a Member of the Broadcasting Review Committee. He joined the *Liverpool Daily Post and Echo* in 1983, which became Trinity International Holdings in 1985. He subsequently became Chief Executive in 1993 and was appointed Chief Executive of Trinity Mirror Group when the company merged with the Mirror Group in 1999 – a position he held until February 2003. He is a former Chair of the Press Standards Board of Finance and of the Broadband Stakeholder Group. He is currently an associate at Praesta Partners LLP and a Trustee of the homeless charity, Crisis.



ED RICHARDS

Ed Richards is the Chief Executive of Ofcom. Previously he was Chief Operating Officer of Ofcom, responsible for Strategy, Market Research, Finance, HR and other functions. Prior to joining Ofcom he was Senior Policy Advisor to the Prime Minister for media, telecoms, the internet and e-govt and Controller of Corporate Strategy at the BBC. He has also worked in consulting at London Economics Ltd, and began his career as a researcher with Diverse Production Ltd where he worked on programmes for Channel 4. He is also a Director of Donmar Warehouse, a Director of The Teaching Awards Trust and a member of the Centre for Economic Performance Policy Committee at the London School of Economics.



MILLIE BANERJEE CBE

Millie Banerjee is a Non-Executive Member of Ofcom. She is also Chair of Ofcom's Remuneration Committee and a Member of Ofcom's Content Board and Nominations Committee and by rotation a Member of the Broadcasting Review Committee and the Broadcasting Sanctions Committee. She is also the Chair of the British Transport Police Authority, a Trustee of the Peabody Trust and a member of the Board of Newham Primary Care Trust. Previously, she spent 25 years with BT, culminating at Director level in BT Products and Services Division, followed by being Senior Vice President for ICO Global Communications. She has been a member of the Strategy Board of the Cabinet Office and has held several senior non-executive appointments including roles at the Strategic Rail Authority, the Sector Skills Development Agency, Channel 4 TV, the Prisons Board and Postwatch. She has also been a Board Member of Focus, a member of the governing body of South Bank University and a Commissioner for Judicial Appointments.

TIM GARDAM

Tim Gardam is a Non-Executive Member of Ofcom. He is Chair of Ofcom's Nations Committee and is also a Member of Ofcom's Nominations, Remuneration and DTT Allocation Committees and by rotation a member of the Broadcasting Review Committee and the Broadcasting Sanctions Committee. He had a 25-year career in broadcasting starting at the BBC where he was editor of *Panorama* and *Newsnight* before becoming Head of Current Affairs and Weekly News. He was a part of the first senior management team at Five and was Director of Programmes at Channel 4. He was the author of the DCMS Review of BBC Digital Radio Services in 2004, a member of Lord Burns' Advisory Panel on the BBC Charter Review and a Director of SMG plc from 2005 to 2007. He has been the Principal of St Anne's College, Oxford since 2004 and is Chair of the Reuters Institute for the Study of Journalism at Oxford University.

**MIKE MCTIGHE**

Mike McTighe is a Non-Executive Member of Ofcom. He is Chair of Ofcom's Risk and Audit Committee and a Member of Ofcom's Remuneration and Nominations Committees. Previously, he was Chairman and CEO of Carrier1 International SA, and before that Executive Director & Chief Executive, Global Operations of Cable & Wireless plc. He is currently Chairman of Pace plc, Chairman of Volex Group plc, Chairman of WYG plc, senior independent director of Betfair Ltd, and Chairman of a number of privately held technology companies.

**NORMAN BLACKWELL**

Norman Blackwell was appointed as a Non-Executive Member of Ofcom on 1 September 2009, and is a Member of the Ofcom Nations, Nominations and Remuneration Committees. From 1995 to 1997 Norman Blackwell was head of then Prime Minister John Major's Policy Unit, where he co-ordinated domestic policy development across Whitehall. He was made a Life Peer in 1997 and remains an active member of the House of Lords with seats on the Delegated Powers and Regulatory Reform Committee and the Finance Bill Select Committee. He has previously held Non-Executive Director and Chairman positions at The Office of Fair Trading, SEGRO plc, Corporate Services Group plc, Akers Biosciences Inc, SmartStream Technologies Ltd and Dixons plc and was also Director of Group Development at NatWest Group Plc. He is currently Chairman of the Board at Interserve plc and the Senior Independent Director at Standard Life plc. He is also a Board member of the Centre for Policy Studies.

**STUART MCINTOSH**

Stuart McIntosh joined Ofcom as Competition Partner in January 2008. Prior to joining Ofcom, he was a Strategy partner in IBM's communications practice in the US. Previously, he held senior positions with PricewaterhouseCoopers, where he led PwC's Telecoms Consulting Practice (in the UK and the US), and with Adventis, a boutique strategy consultancy, where he was Senior Vice President. He began his career as an Economist in the UK's Government Economic Service. He has also worked for BT where he held the position of Head of Business Economics.

**PETER PHILLIPS**

Peter Phillips joined Ofcom in 2006 and has responsibility for its strategy, technology, consumer affairs, chief economist and market research teams. He is a member of the DTT Allocation Committee. Previously, he was Director of Business Development at the BBC, leading the award winning sale of BBC Broadcast in 2005. Earlier posts at the BBC included Chief Operating Officer at BBC News & Current Affairs and BBC Head of Corporate Planning. He was a senior manager in the mergers and acquisitions team at SG Warburg and before that spent seven years at the strategy consulting firm Bain & Company. He is a trustee of the Crafts Council and the Nuffield Trust and an adviser to the Royal College of Physicians.



CORPORATE GOVERNANCE

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

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 UK Corporate Governance Code during the period 1 April 2009 to 31 March 2010. To this end, Ofcom will continue to adopt the principles of the code where it is either capable of doing so, or it is appropriate to do so, given its status as an independent statutory corporation.

Details of Members' remuneration are set out on pages 64 to 70.

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 Business, Innovation and Skills and for Culture, Media and Sport for a period of up to five years. Ofcom's Nominations Committee has assisted both Departments by working with them in the selection process for the appointment of new Non-Executive Members. Executive Members of the Board are appointed by the Chairman and all of the independent Non-Executive Members. Members' biographical details are set out on pages 50 and 51. Ofcom has adopted a unitary Board model. The Board currently consists of six Non-Executive Members including the Chairman, who is responsible for running the Board, and three Executive Members including the Chief Executive. The Board is responsible and accountable for the discharge of Ofcom's statutory functions and provides strategic leadership and manages overall control of Ofcom's activities. Members' duties and responsibilities are set out in a Members' Code of Conduct and a register of Members' interests is maintained. Both are available on the Ofcom website. For the purposes of adopting the principles of the UK Corporate Governance 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 UK Corporate Governance 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.

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

- Ofcom has appropriate objectives and an effective strategy;
- the Chief Executive's team is able to implement the strategy;
- there are procedures in place to inform the Board of performance against objectives; and
- Ofcom is operating in accordance with the highest standards of corporate governance. Ofcom's Annual Report is sent to the Department for Business, Innovation and Skills 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 principal Committees are described below.

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 12 to 14. The Content Board meets monthly and held 11 meetings during the year. The Members of the Content Board during the year were:

- Philip Graf (Chair)
- Adam Singer (Deputy Chair)
- Richard Ayre (Chairman of the Broadcasting Review Committee from 15/12/09)
- Sue Balsom
- Millie Banerjee
- Chris Banatvala
- Pam Giddy
- Anthony Lilley OBE
- Dr. Paul Moore
- Stewart Purvis CBE
- Joyce Taylor
- Kath Worrall (Chair of the Fairness Committee until 15/12/09)

Chris Banatvala and Stewart Purvis are the only Executive Members of the Content Board.

Members of the Content Board are also members of the Radio Licensing Committee, the Broadcasting Sanctions Committee (formerly the Content Sanctions Committee) and the Broadcasting Review Committee (formerly the Fairness Committee). During the period under review, eight cases were considered by the Fairness Committee and the Content Sanctions Committee applied sanctions in six cases. Full details of the work of the committees are given on pages 42 and 43.

The Executive Committee

The Executive Committee (ExCo) is the senior executive team responsible for overseeing the management of Ofcom.

Its core focus is on setting direction for the organisation, financial and administrative decision-taking and monitoring. Its policy-making responsibilities are limited to management policy only. The members are:

- Ed Richards (Chair)
- Jill Ainscough
- Stuart McIntosh
- H. Nwana (appointed 24 September 2009)
- Peter Phillips
- Stewart Purvis
- Polly Weitzman (appointed 31 March 2010)
- Chris Woolard (appointed 13 July 2009)

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

The Risk and Audit Committee

The Risk and Audit Committee comprises three Non-Executive Members of the Ofcom Board and an independent external Non-Executive Member. The members of the Risk and Audit Committee are:

- Mike McTighe (Chair)
- Peter Teague
- Philip Graf
- Colette Bowe

Peter Teague, the external independent Non-Executive Member, is a qualified chartered accountant and satisfies the requirement under the UK Corporate Governance Code that one Member of the Committee has relevant financial experience. The additional requirements of the UK Corporate Governance Code are met to the extent that three Members of the Committee are independent Non-Executive Members of the Ofcom Board.

The Chief Executive, the Chief Operating Officer and the Finance Director are invited to attend Committee meetings, as are the internal and external auditors. The Chairman of the Risk and Audit Committee reports the outcome of Committee meetings to the Ofcom Board.

BOARD COMMITTEES

The main duties of the Risk and Audit Committee are to:

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

The internal audit function is carried out independently from Ofcom by KPMG. The Risk and 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 on behalf of the Comptroller and Auditor General.

The Risk and Audit Committee met five times during the year. The terms of reference are available on the Ofcom website.

The Remuneration Committee

The Remuneration Committee consists of all the Non-Executive Members of the Ofcom Board. The members of the Remuneration Committee are:

- Millie Banerjee (Chair)
- Norman Blackwell (appointed 1 September 2009)
- Colette Bowe
- Tim Gardam
- Philip Graf
- Mike McTighe

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

The Committee advises Ofcom on the remuneration and terms and conditions of service for the Chief Executive, other Executive Members of the Board and Members of the Executive Committee. The Committee also advises Ofcom on the terms and conditions of the part-time members of the Content Board, the Consumer Panel, the Advisory Committee on Older and Disabled People 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 and severance arrangements where they fall outside colleagues' standard terms and conditions.

The Remuneration Committee meets as and when required. During the period the Committee met eight times. The Chairman of the Remuneration Committee reports the outcome of the Remuneration Committee meetings to the Board.

The remuneration of Non-Executive Members of the Ofcom Board is determined by the Secretaries of State for Business, Innovation and Skills and for Culture, Media and Sport and is set out in detail in Note 10 to the Remuneration Report. Should it be necessary for Ofcom to consider any aspect of Non-Executive Member remuneration a Non-Executive Member Remuneration Committee has been established consisting of the Chief Executive, the HR Director and the Corporation Secretary, which will meet and report directly to the Secretaries of State as appropriate. Consequently, no Board Member is involved in the setting of his or her own remuneration.

The Remuneration Report on pages 64 to 70 sets out Ofcom's application of the relevant principles of the UK Corporate Governance Code.

The Nominations Committee

The Nominations Committee consists of all the Non-Executive Members of the Ofcom Board. The members of the Nominations Committee are:

- Colette Bowe (Chair)
- Millie Banerjee
- Tim Gardam
- Philip Graf
- Mike McTighe
- Norman Blackwell (appointed 1 September 2009)

The Committee works with the Departments for Business, Innovation and Skills and for Culture Media and Sport on the process for selecting Non-Executive Members for the Ofcom Board and makes recommendations on Executive Member appointments. The Committee meets as and when required.

The Broadcasting Review Committee, Broadcasting Sanctions Committee and Election Committee

These committees are made up of members drawn from the Content Board and Ofcom Board.

BOARD COMMITTEES

The Committees have a permanent Chair who, during the period, was Philip Graf for the Broadcasting Sanctions Committee and Election Committee and Kath Worrall for the Fairness Committee until 15 December 2009 and thereafter Richard Ayre, when the Fairness Committee was succeeded by the Broadcasting Review Committee.

The Committees meet as and when required and details of their activities can be found on pages 42 and 43.

Radio Licensing Committee

The Radio Licensing Committee has delegated authority from the Ofcom Board to discharge Ofcom's functions in relation to radio (sound) broadcasting licensing. The Committee's responsibilities include decisions on the award of new and re-advertised radio licences, and on licence variations and revocations

Philip Graf chairs this committee. Its membership consists of two permanent Non-Executive Members of the Content Board, who during the period were Joyce Taylor and Pam Giddy, and five Ofcom colleagues. It meets monthly and details of its activities can be found on page 23.

Community Radio Fund Panel

Section 359 of the Communications Act 2003 makes it possible for a fund for community radio operators to be set up, and for Ofcom to administer it and "make such grants as they consider appropriate" to community radio licensees. The Panel meets as required to examine applications and make awards from the Fund. It is independent of the Radio Licensing Committee (see above), which awards community radio licences.

The Panel has three non-executive members: Kevin Carey (Chair), Richard Hilton and Thomas Prag.

Nations Committee

The Nations Committee was established in October 2009. It agrees the profile and role for each of Ofcom's four National Advisory Committees and co-ordinates their activities. Its role includes: understanding the political dynamics in each Nation of the United Kingdom and advising on the political engagement by Ofcom in each Nation; agreeing appropriate processes for Ofcom's engagement with each National Advisory Committee; monitoring stakeholder events in each Nation and overseeing the involvement and engagement of the Ofcom Board, Content Board, National Advisory Committee members and Ofcom executives in each Nation. Its membership comprises two Non-Executive members of

the Ofcom Board, one of whom acts as Chairman, and the Chairmen of the National Advisory Committees. The Executive Directors of each Nation together with the Partner, External Affairs and Governance are invited to attend Nations Committee meetings. The members of the Nations Committee are:

- Tim Gardam (Chair)
- Norman Blackwell
- Professor Tony Davies
- Professor William Dutton
- Professor Wallace Ewart, OBE
- Professor Philip Schlesinger

Spectrum Clearance Finance Committee

The Board established during the year the Spectrum Clearance Finance Committee and delegated to that Committee responsibility for making grants on spectrum efficiency grounds for any proposed spectrum clearance under section 1(5) of the Wireless Telegraphy Act 2006 and the terms and conditions on which grants are made, subject to the grant and the terms and conditions requiring the consent of HM Treasury. The Committee met for the first time in November. Details of its activities may be found on page 16. The Chairman and Deputy Chairman of the Committee are external independent Non-Executive Members. The Members comprise:

- Sir David Brown (Chairman)
- Peter Teague (Deputy Chairman)
- H. Nwana
- Kate Stross
- Professor William Webb

DTT Allocation Committee

The Ofcom Board has delegated the discharge of its functions in relation to the allocation of capacity on digital terrestrial multiplex B, pursuant to an order from the Secretary of State for Culture, Media and Sport, to the DTT Allocation Committee. Its membership comprises:

- Philip Graf (Chair)
- Tim Gardam
- Sue Balsom
- Greg Bensberg
- Peter Phillips
- Kate Stross

It met five times during the year to consider applications for capacity on the multiplex, but decided not to reserve the capacity for either of the applicants, Channel 5 Broadcasting Ltd or Channel 4 and its partner S4C. Details of the Committee's activities may be found on page 17.

NON-BOARD COMMITTEES

The Communications Consumer Panel

Section 16 of the Communications Act 2003 requires Ofcom to establish a Consumer Panel. The Panel acts as a 'critical friend' to Ofcom, providing advice that is robust and independent, but at the same time pragmatic and constructive.

Through the advice that it gives, the Communications Consumer Panel seeks to persuade Ofcom, Government and industry to look at issues through the eyes of consumers and protect and promote their interests. The Panel pays particular attention to the needs of older people and people with disabilities, to the needs of people in rural areas and people on low incomes, and to the needs of small businesses, which face many of the same problems as individual consumers.

Independent of Ofcom, the Panel is made up of the ten independent experts shown below, including four from Scotland, Wales, Northern Ireland and England with experience from many different fields: consumer advocacy, regulation, the third sector, academia, the trade union movement, market research and industry.

- Anna Bradley (Chairman)
- Fiona Ballantyne
- Louisa Bolch
- Kim Brook
- Colin Browne
- Roger Darlington
- Dr Maureen Edmondson OBE
- Leen Petre
- Bob Warner CBE
- Dr Damian Tambini

Over the last year the Panel has had a positive impact in a wide range of areas.

The Panel undertook mobile coverage research to find out the views and experiences of consumers and small businesses. It used this research to inform its response to Ofcom's Mobile Sector Assessment and called on industry to improve coverage information and consumers' ability to cancel contracts if they are not able to get the coverage they need.

The Panel has developed a framework for digital participation, which starts with the consumer experience and breaks down the journey that people make in getting

online and then enjoying the benefits. This framework has been adopted by Government in its National Plan for Digital Participation and is being used by the Digital Participation Consortium led by Ofcom.

The Panel has also:

- advised Ofcom on a range of issues including: switching processes; complaints-handling; the wholesale local access and wholesale broadband market reviews; broadband speeds, television access services; universal service and next-generation access;
- commissioned research to inform debate about the universal broadband commitment proposed by Government during the Digital Britain review; and
- published an updated report on the community next-generation broadband initiatives under way around the country.

The Communications Consumer Panel's annual report covering its impact in 2009/10 and priorities for 2010/11 can be found online at www.communicationsconsumerpanel.org.uk.

The Ofcom Spectrum Advisory Board

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

- Brigadier David Meyer (Chair) (appointed 1 June 2009)
- Professor Linda Doyle (appointed 1 June 2009)
- Robin Foster (appointed 1 June 2010)
- Phillipa Marks
- Philip Marnick (appointed 1 June 2009)
- Dr Robert Pepper
- Jean-Jacques Sahel (appointed 1 June 2010)
- Professor Simon Saunders
- Sam Sharps (ex-officio) (appointed 1 December 2009)
- Professor Tommaso Valletti
- Mike Walker (appointed 1 June 2010)
- Professor William Webb (ex-officio) (appointed 1 March 2010)
- Gavin Young (appointed 1 June 2009)

Sir David Brown retired as Chair on 31 May 2010 and was

NON-BOARD COMMITTEES

succeeded by Brigadier David Meyer. Professor Barry Evans and Professor Will Stewart retired from the Board on 31 May 2010 and David Cleevly, Professor Leela Damadoran, Andrew Sleight and Walter Tuttlebee on 30 April 2009. Debbie Gillatt resigned from the Board on 30 November 2009.

During its sixth year, a theme underlying much of OSAB's discussion was the changing environment under which Ofcom might operate as a result of the Digital Britain report and Digital Economy Act. Key discussion items were:

- developments in broadband communications;
- possible release of spectrum from the Ministry of Defence;
- the implications of the Digital Britain report;
- the monitoring by Ofcom of the state of the UK's communications infrastructure;
- what the appropriate regulatory approach to net neutrality should be; and
- the evolution of communications infrastructures over the next 20 years.

OSAB's Annual Report, covering its activities during its sixth year can be found on the OSAB website at www.osab.org.uk.

The Advisory Committee on Older and Disabled People

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 and undertakes specific pieces of work in sub-groups. The Members of The Advisory Committee on Older and Disabled People (ACOD) are:

- Jo Connell (Chair) (appointed 1 April 2010)
- Liz Atkins
- Simon Cramp
- Dr Laura Muir
- Dr Maurice Mulvenna
- Robert Peckford
- Suneel Shivdasani
- David Sindall
- Nicholas Young

Mike Whitlam CBE retired as Chairman on 31 March 2010 and John Welsman retired as a Member on 31 March 2010.

In its sixth year, the Committee continued to advise Ofcom to ensure that older and disabled people are

equal players and full participants across current and emerging convergent telecommunications and broadcasting technologies, new media platforms and digital and traditional broadcast media. It has provided formal written advice to Ofcom on its consultations on a Single Equality Scheme, the TV Access Service Review and Ofcom's Annual Plan for 2010/11. In addition, ACOD has continued to advise Ofcom across the range of its other responsibilities, including Ofcom's Consumer Policy, Research, Digital Participation and Media Literacy programmes.

In June 2009 Ofcom published research commissioned by ACOD, which aimed to understand how manufacturers, suppliers and retailers of UK communications equipment, products and services currently address the requirements of older and disabled people. The report examined the barriers that exist and the drivers for industry to consider to better address those requirements.

In the autumn ACOD held stakeholder events in each of the three devolved Nations, and in February 2010 ACOD worked with BT to host a conference on Inclusive Design, building on the research the Committee had published in the summer.

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. The membership of each Committee is as follows:

ENGLISH REGIONS

- Professor William Dutton (Chair)
- Olwyn Hocking
- Dharmash Mistry
- John Varney
- Graham Creelman OBE
- Wendy Pilmer
- Helen Foster
- Robert Watson
- Anne Scorer

SCOTLAND

- Professor Philip Schlesinger (Chair)
- Thomas Prag

NON-BOARD COMMITTEES

- Laura Alexander
- Andrew Anderson
- Dr Franck Chevalier
- Andrew Jones
- Mairi Mcleod
- Dr Andrew Muir
- Mike Shaw

NORTHERN IRELAND

- Professor Wallace Ewart OBE (Chair)
- Paul Cavanagh
- Isolde Goggin
- Lesley Holmes
- Maire Killoran
- Libby Kinney
- Billy McClean
- Dr Sally Montgomery OBE
- Dr Leslie Orr
- Ben Preston

Jim Dougal resigned from the Committee on 31 August 2009.

WALES

- Professor Tony Davies (Chair)
- Julie Barton
- Nick Bennett
- Ian Clarke
- John Davies
- Mark Elliott
- Simon Gibson OBE
- Glyn Mathias

The fees for members of non-Board Committees have not been increased in 2009/10.

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 Business, Innovation and Skills 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 generally accepted accounting standards, and on an accruals basis. It 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 responsibility to him for the day-to-day management of Ofcom. The Secretaries of State for Business, Innovation and Skills 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, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money and in the Ofcom Financial Memorandum issued to me by the Secretaries of State for Business, Innovation and Skills and for Culture, Media and Sport.

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

As required, Ofcom completes a risk model and performance report for the Permanent Secretary and Management Board of the Department for Business, Innovation and Skills.

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. The system of internal control is based on an ongoing process designed to:

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

The system of internal control has been in place in Ofcom for the year ended 31st March 2010 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to Handle Risk

Ofcom continued to demonstrate strong leadership of the management of risk through the work of the Board and its sub-committees, which are responsible for managing Ofcom's risk exposure.

In providing support to the Board and Executive Committee, the Operations Board and Policy Executive are responsible for providing leadership on the management of risks arising from specific operational and regulatory development.

As part of the continual process to improve its risk management capability, Ofcom appointed a Risk and Insurance Manager with principal responsibility for overseeing the implementation of an enhanced risk management framework based on a series of recommendations drawn from Ofcom's 2009 annual risk review. The ongoing plan for improvement of the risk management framework will be benchmarked annually against the Government's Risk Management Assessment Framework and is subject to regular, independent review by internal audit.

Ofcom's risk management policy clearly defines its approach to risk management, its objectives and processes as well as identifying the specific risk management roles, accountabilities and responsibilities of the Board, the Executive Committee, the Risk & Audit Committee, Steering Groups, internal audit, project directors and managers, colleagues and the risk management function.

Senior management are responsible for ensuring colleagues have the appropriate skill levels to identify, assess and manage the potential for risk to arise in line with Ofcom's desire to embed and support a culture of well managed risk. In support of the senior managers' role in championing the risk process, the Risk & Insurance Manager works across all areas of the organisation to promote and integrate the risk management process and to support and educate colleagues.

STATEMENT ON INTERNAL CONTROL

The Risk and Control Framework

RISK MANAGEMENT FRAMEWORK

Key elements of Ofcom's risk management framework include:

- the risk management policy;
- monthly meetings involving the Risk & Insurance Manager and Group Heads/Senior Managers to identify, assess and review key risks;
- monthly review of strategic risks by the Executive Committee;
- quarterly reporting by the Risk & Insurance Manager to the Risk & Audit Committee;
- an annual review and discussion of internal controls by the Board with the Chair of the Risk & Audit Committee;
- the Risk & Audit Committee's annual review of Ofcom's annual accounts;
- assurance from specialist functions and committees that legal, security, fraud, health and safety, diversity and environmental risks are appropriately managed;
- risk based methodology for assessing operational insurance requirements;
- carrying out impact assessments (as required under the Communications Act 2003), which incorporate the identification and assessment of risks attached to proposed policies to be introduced by Ofcom;
- the monthly provision of a management information pack to the Board and the Executive Committee, which incorporates the strategic risk register and performance indicators;
- regular team and one-to-one meetings to identify and manage key risks; and
- Spectrum Engineering & Enforcement accreditation with ISO 9001.

Ofcom's strategic risk register is reviewed monthly by the Board and the Executive Committee. All identified risks are assigned an owner, a member of the Senior Management Group, who is accountable for the management of the risk. The cause and impact of each risk is clearly articulated and risks are categorised against an agreed scheme. Mitigating actions are assigned to each risk. Each risk is assigned a current and a residual risk exposure; the residual exposure assumes the successful and effective implementation of the mitigating action plan. Group risks are reviewed with the Risk & Insurance Manager on a monthly cycle and

escalated onto the strategic risk register where appropriate. The Risk & Insurance Manager facilitates the escalation of key risks from projects and programmes and initiates review at the Executive Committee.

Monthly performance reports are reviewed by the Board and Executive Committee covering performance against key indicators relating to value for money and internal efficiencies, markets, consumers and Spectrum & Stakeholders. Monthly financial reports covering expenditure against budget, forecast and outturn are also provided and reviewed.

The risk management policy also identifies Ofcom's appetite for risk, which remains highly risk adverse in relation to its core operational activities and tolerates an appropriate level of risk around regulatory related areas to provide benefit for citizens and consumers.

EXECUTIVE COMMITTEE ROLE

All members of the Executive Committee undertake regular reviews of the major areas of risk for which they are responsible. The members work with their teams and the Risk & Insurance Manager to ensure all colleagues are able to identify and manage risk in line with Ofcom's appetite for risk.

STAKEHOLDERS AND PARTNERS

Risks that impact upon benefit to consumers and citizens are managed through Ofcom's consultation processes, which are an integral part of the organisation's regulatory reform process. Executive Committee members and colleagues regularly liaise with stakeholders to discuss regulatory reform and implementation related matters in order to identify risks that will impact on Ofcom's ability to achieve its statutory duties.

Ofcom continues to work closely with suppliers and partners to mitigate economic and commercial risks. The business critical contract risk register is reviewed regularly, reported to the Operations Board each month and escalated to ExCo as appropriate.

The External Affairs and Governance Group was established in July 2009 to co-ordinate Ofcom's regulatory activity in line with its statutory duties. It brings together those areas of the business that are concerned with Ofcom's stakeholder management, nationally and internationally, communications and governance.

STATEMENT ON INTERNAL CONTROL

CRISIS MANAGEMENT AND BUSINESS CONTINUITY

Ofcom continues to review and improve its resilience arrangements. A crisis management team and business continuity coordinators have been appointed to ensure appropriate responses in the event of a crisis. Business continuity plans are proportionate to a team's business continuity needs.

Recommendations from an internal audit are being implemented, while weaknesses with an outsourced information service provider's responses identified last year have been resolved and proven in a successful disaster recovery test.

A command post exercise was completed in November which both trained and tested Ofcom's crisis management capabilities. Lessons learnt from the exercise have resulted in further improvements to the crisis management framework.

Additionally, Ofcom participated in The Department for Business, Innovation and Skills White Noise exercise which was designed to test how government departments and telecoms providers would manage the impact and consequences of a catastrophic, UK wide failure of the telecommunications network. This exercise is part of the Government's National Preparedness Programme.

Ofcom's Crisis Management Expert Group meets monthly to drive the resilience agenda, to plan exercises, give specialist advice and test arrangements.

HEALTH AND SAFETY

The Health and Safety (H&S) Committee met five times during the year and the Spectrum Engineering and Enforcement Sub-Committee met four times. The H&S Committee reports to the Operations Board twice a year. H&S training continued to be provided during the year with mandatory take-up of both the general H&S and posture e-learning modules.

SECURITY

The Security Committee meets regularly through the year to consider Ofcom's security arrangements. The Committee reports quarterly to the Risk and Audit Committee through the Secretary of the Corporation.

The Security Policy, which includes information security, was revised during the year to ensure that it continually reflects Ofcom's operational requirements. To increase understanding of the Security Policy, an e-learning module has been developed which will be rolled out during 2010. The module will be mandatory for all colleagues.

A penetration test of Ofcom's external facing systems was completed in association with the National Computing Centre and Ofcom's security arrangements proved resilient. Ongoing consideration is being given to Ofcom's IS security requirements in light of its responsibilities under the Digital Economy Act 2010.

FINANCIAL CONTROLS

During the year, a number of initiatives have been implemented to further enhance Ofcom's framework of financial controls. These include:

- the consolidation of payroll and benefits administration with a single supplier which integrates with Ofcom's internal systems and delivers improved controls;
- a new web enabled expenses management solution providing workflow approval, real-time expenses policy validation and an enhanced audit trail;
- a financial control, audit and reconciliation framework for the management of spectrum clearance payments to meet the obligations of the Spectrum Clearance Finance Committee; and
- the implementation of a number of formal OJEU procurement frameworks for goods and services to ensure legal compliance and to mitigate against the risks associated with non-standard contractual terms and conditions.

Additionally, reviews of the Expenses Policy and the Financial Authorities Framework have taken place.

In line with the audit plan approved by the Risk and Audit Committee, internal audits/reviews were conducted on our core risk, financial and tariff-setting processes, employee expenses, the business critical contracts process, SMS and Siebel application security, compliance with procurement strategy and Section 400 Accounts – Fines, Auctions and Additional Payments.

The Finance area continued to provide monthly management accounts, which are reviewed by budget holders, the Executive Committee and the Board each month. These management accounts are used to inform the quarterly reforecast of expenditure.

WHISTLEBLOWING AND FRAUD

In line with our commitment to continually improve the control environment, Ofcom's Whistleblowing policy was reviewed during February. A review of the Counter-Fraud and Fraud Response plan is currently underway. Both policies are subject to review by the Risk & Audit Committee.

STATEMENT ON INTERNAL CONTROL

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 the department 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.

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 Risk & Audit Committee. A plan to address weaknesses and ensure continuous improvement of the system is in place.

THE BOARD

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

THE EXECUTIVE COMMITTEE

Executive Committee members sign an annual statement to provide reasonable assurance on the overall effectiveness of the internal control system in the areas for which they are responsible.

THE RISK & AUDIT COMMITTEE

The role of the Risk & Audit Committee is to advise the Board on the adequacy of Ofcom's risk management policies and processes and the extent to which they are applied, and to review the reliability and integrity of assurances. It does this through the assurances provided by the work of external and internal audit, quarterly reviews provided by the Risk & Insurance Manager and from regular reports provided to the Risk & Audit Committee on risks relating to litigation, finance, security and fraud.

The Risk & Audit Committee's terms of reference were reviewed during the year to ensure they reflected developments in best practice for Audit Committees and continued to meet Government guidance.

RISK & INSURANCE MANAGER

The Risk & Insurance Manager is responsible for overseeing Ofcom's risk management framework and the associated plan for continuous improvement. The Risk & Insurance Manager reports quarterly to the Risk & Audit Committee.

INTERNAL AUDIT

The internal audit function is outsourced to KPMG and carries out its work in line with the Annual Audit Plan that is approved by the Risk & Audit Committee. Internal Audit reports to and attends Risk & Audit Committee meetings.

In reviewing Ofcom's systems in line with the audit plan, Internal Audit has provided reasonable but not absolute assurance that it is satisfied that sufficient internal audit work has been undertaken to form the opinion that Ofcom has adequate and effective risk management, control and governance processes to manage the achievement of its objectives. No major weaknesses were identified, although Internal Audit's work identified a number of opportunities for improving controls and procedures to which Ofcom has responded positively.

ANNUAL RISK REVIEW

The 2008/09 Risk Review made a series of recommendations which have formed the foundations of a programme of work to further enhance Ofcom's risk management framework. This programme of work was initiated during the year and runs into 2010/11.

As the Risk & Insurance Manager is required to report quarterly to the Risk & Audit Committee on the status of the programme, it was agreed to defer the 2009/10 Risk Review. Additionally, Internal Audit completed a review of Ofcom's risk management framework during the year. The next Risk Review will be completed in 2010/11.

SIGNIFICANT CONTROL ISSUES

There were no significant internal control issues during the year.

Ed Richards Chief Executive

16 June 2010

REMUNERATION REPORT

In preparing the Remuneration Report and establishing its policy the Board has given consideration to, and adopts the provisions of, the UK Corporate Governance 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 54.

Advisers

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

- Towers Watson, on executive remuneration; and
- Allen & Overy LLP, on employment contracts and associated legal issues.

Towers Watson 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 and the Chief Operating Officer are normally invited by the Remuneration Committee to attend meetings of the Committee. No individual is present for any discussion about his or her own remuneration.

General Policy

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

Components of Remuneration

The main components of the Executive Members' remuneration are:

SALARY AND FLEXIBLE BENEFITS

The basic salary for each Executive Member and senior manager is determined by taking into account each colleague's responsibilities, performance and experience together with market trends. In addition, a flexible benefits allowance is made available to each Executive Member and senior manager. Base salary for all colleagues is reviewed annually with effect from 1 July each year. Base salary for 2010 has not yet been reviewed. Following the review in 2009 it was decided not to offer a salary increase to any colleague. In addition Ofcom also declined to accept any increase in fees for the Non-Executive members, or award any increase in fees to members of the Content Board, the Communications Consumer Panel and the Advisory Committees following the Government Senior Salaries Review.

BENEFITS IN KIND

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

ANNUAL PERFORMANCE PAY

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

REMUNERATION REPORT

No decision has yet been taken on performance pay for the period 1 April 2009 to 31 March 2010.

PENSION ARRANGEMENTS

Executive management

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

Chris Banatvala is eligible to participate in the Ofcom Defined Benefit Pension Plan on comparable terms as applied when previously employed by the ITC. This provides salary-related pension benefits on a defined benefit basis, with an accrual rate of 1/60th of final salary per year of service, subject to the Ofcom Plan Earnings Cap where appropriate.

Non-Executive Members

No Non-Executive Member received a pension benefit from Ofcom during the year under review.

Details of remuneration for the Board, the Content Board and the Executive Committee, which have been audited by the National Audit Office, are set out in the tables and notes on pages 66 to 70.

REMUNERATION REPORT

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 Executive Members of the Board, Content Board or members of the Executive Committee. Those individuals with the note ‘+’ against their name in the schedules were only in their roles for part of 2008/9 or 2009/10. Where Executive Committee members joined during 2009/10, their remuneration for the full period of their employment during the year is given. Where individuals are members of more than one Board/Committee (as set out on pages 50 to 55) they appear only once in the remuneration schedules and all the Executive Members are listed under the Executive Committee. The numbered points against the names of individuals refer to the numbered points set out on pages 68 and 69.

The following information has been subject to external audit.

OFCOM BOARD REMUNERATION 2009/10

	Guidance note reference	Fees 09/10	Pension entitlement/ allowance 09/10	Flexible benefits allowance 09/10	Benefits In kind 09/10	Performance pay 09/10	Total remuneration 09/10	Total remuneration 08/09
		£	£	£	£	£	£	£
Millie Banerjee CBE	(6, 10, 13)	59,357			280		59,637	65,029
Norman Blackwell +	(1, 6, 10, 13)	24,803					24,803	
Colette Bowe +	(6, 10, 13)	200,000					200,000	49,585
David Currie +	(2, 10)							212,473
Tim Gardam	(6, 10, 13)	42,519					42,519	42,519
Philip Graf CBE	(6, 10, 13)	106,298			280		106,578	106,970
Stephanie Liston +	(2, 10)							17,480
Mike McTighe	(6, 10, 13)	42,519			280		42,799	43,191
Total		475,496			840		476,336	537,247

As a result of the various arrivals and departures to the Ofcom Board in 2008/9 and 2009/10 an annualised figure has been presented to provide a clearer comparison of total costs.

Total annualised costs for 2008/9 £519,767

Total annualised costs for 2009/10 £494,052

REMUNERATION REPORT

OFCOM CONTENT BOARD REMUNERATION 2009/10

	Guidance note reference	Fees 09/10	Pension entitlement/ allowance 09/10	Flexible benefits allowance 09/10	Benefits In kind 09/10	Performance pay 09/10	Total remuneration 09/10	Total remuneration 08/09
		£	£	£	£	£	£	£
Richard Ayre	(6, 8, 12, 13)	23,786			125		23,911	21,949
Chris Banatvala	(6, 14, 17)	121,665	37,205	15,000	988		174,858	162,338
Sue Balsom	(6, 12, 13)	21,649			280		21,929	22,321
Pam Giddy	(6, 12, 13)	21,649			280		21,929	22,321
Anthony Lilley	(6, 12, 13)	21,649			280		21,929	22,321
Dr Paul Moore	(6, 12, 13)	21,649			280		21,929	22,321
Adam Singer	(6, 12, 13)	28,865			280		29,145	29,537
Joyce Taylor	(6, 12, 13)	21,649			280		21,929	25,321
Kath Worrall	(6, 9, 12,13)	27,061			186		27,247	29,206
Total		309,622	37,205	15,000	2,979		364,806	357,635

OFCOM EXECUTIVE COMMITTEE REMUNERATION 2009/10

	Guidance note reference	Salary 09/10	Pension entitlement/ allowance 09/10	Flexible benefits allowance 09/10	Benefits In kind 09/10	Performance pay 09/10	Total remuneration 09/10	Total remuneration 08/09
		£	£	£	£	£	£	£
Jill Ainscough	(7, 14, 15, 16)	191,446	28,717	15,000	1,695	25,000	261,858	231,792
Ian Hargreaves	(2)							45,451
Stuart McIntosh	(7, 14, 15, 16)	230,821	34,623	15,000	1,695		282,139	280,667
H Nwana	(3,7, 14, 15, 16)	96,058	14,409	7,788	824		119,079	
Peter Phillips	(7, 14, 15, 16)	192,084	28,813	20,000	1,975		242,872	240,489
Stewart Purvis	(7, 11, 14, 15, 16)	189,021	28,353	15,000	1,975		234,349	202,249
Ed Richards	(7, 14, 15, 16)	299,821	59,964	19,953	1,975		381,713	392,056
Philip Rutnam	(2)							229,311
Polly Weitzman	(5, 7, 14, 15, 16)	203,718	30,558	15,000	1,695		250,971	
Christopher Woolard	(4, 7, 14, 15, 16)	166,724	31,725	13,981	1,695		214,125	
Total		1,569,693	257,162	121,722	13,529	25,000	1,987,106	1,622,015

As a result of the various arrivals and departures to the Executive Committee in 2008/9 and 2009/10, an annualised figure has been presented to provide a clearer comparison of total costs.

Total annualised costs for 2008/9 £2,083,808

Total annualised costs for 2009/10 £2,111,643

Notes to the remuneration tables

1. Norman Blackwell joined the Board as a Non-Executive Member on 1 September 2009.
2. David Currie, Ian Hargreaves, Stephanie Liston and Philip Rutnam all left the Board during the year 2008/9 and are listed in this report for comparison purposes only; their remuneration reflects the part of the year 2008/9 when they were members of the Board or, in the case of Stephanie Liston, were receiving compensation for the enforcement of restrictive covenants.
3. H. Nwana joined Ofcom and the Executive Committee with effect from 24 September 2009.
4. Christopher Woolard joined Ofcom on 27 April 2009 and his remuneration is given from this date. He joined the Executive Committee with effect from 13 July 2009.
5. Polly Weitzman joined the Executive Committee with effect from 31 March 2010. She was an employee of Ofcom for the full year 2009/10 and her remuneration is shown for the full year.
6. The payment by Ofcom of a contribution to the cost of maintaining digital television for Ofcom Board and Content Board Members was withdrawn from 31 August 2009.
7. All members of the Executive Committee in employment in May 2009 received a small upward adjustment to their salaries of £335.77 from 1 September 2009 to reflect the withdrawal of the Digital Package with effect from 31 August 2009.
8. The fees for Richard Ayre reflect an increase paid to him when he took on the responsibility of Chairing the Broadcast Review Committee in December 2009.
9. The fees for Kath Worrall reflect a reduction from 1st January 2010 after she stepped down from Chairing the Fairness Committee in December 2009.
10. The fees for all the Non-Executive Members of the Ofcom Board are fixed in agreement with BIS and DCMS for the duration of their appointment. The fees shown represent a full year or, where appropriate, part of the year if the relevant Non-Executive Member joined or retired from the Ofcom Board during the period under review. The basic fee of the Non-Executives of the Ofcom Board (with the exception of the Chairman, the Deputy Chairman and Millie Banerjee) was £42,519 per annum from 1 April 2008. The basic fee of the Ofcom Board including the fee for the Chairman, Deputy Chairman and Millie Banerjee were not increased from 1 April 2009. 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 Colette Bowe, Philip Graf and Millie Banerjee who currently commit up to three, three and two and a half days per week respectively).
11. Stewart Purvis was employed by Ofcom on a part-time basis until December 1 2008 after which he has been employed full-time. His remuneration shown (for comparison purposes) for 2008/9 represents what was actually paid to him and not a full-time equivalent salary.
12. The fees for the Non-Executive Members of the Content Board are fixed by the Ofcom Board. The fees shown represent a full year or, where appropriate, part of the year if the relevant Non-Executive Member joined or retired from the Content Board during the period under review. The basic fee of the Content Board Members (with the exception of Adam Singer (Deputy Chairman), Kath Worrall and Richard Ayre, (Chair of the Broadcast Review Committee) who receive increased fees for these additional roles) is £21,649 per annum. The basic fees of the Content Board members, including Adam Singer and Kath Worrall, were not increased from 1 April 2009.

NOTES TO THE REMUNERATION TABLES

13. The Non-Executive Members of the Ofcom Board and the Content Board Members received no additional remuneration from Ofcom beyond their fees other than the entitlement to the provision of certain standard benefits, which are a digital package for domestic and business use (until August 31 2009) and, for the Non-Executive Members of the Ofcom Board only, the provision of IT equipment for home working. Not all Non-Executive Members of the Ofcom Board or Content Board Members took up the entitlement during the period under review.
14. Annual remuneration for the Ofcom executives (Executive Members of the Ofcom Board, Executive Members of the Content Board and senior managers on the Executive Committee) includes base salary together with a cash allowance for flexible benefits and a percentage of basic salary paid as a pension allowance (with the exception of Chris Banatvala).
15. Basic salary for each member of the Executive Committee was adjusted upwards on April 1 2009 to reflect an alignment of the salary review process for all Ofcom employees; previously the Executive Committee members and other senior managers were reviewed with effect from 1 April each year and the remainder of Ofcom employees with effect from 1 July each year. All Ofcom employees are now reviewed with effect from 1 July each year. No basic salary increase was given to any Ofcom employee in the July 2009 review. Each Ofcom Executive Member of the Ofcom Board or senior manager is able to benefit from life assurance, group income protection and the ability to undertake an annual health check. The value of group income protection, life assurance and annual health checks have not been disclosed in the remuneration schedules because they are not treated by HM Revenue & Customs as a taxable emolument.
16. Executive Committee members participate in a performance pay scheme, payment of which is based on individual performance. All payments are approved by the Ofcom Remuneration Committee and are calculated as a percentage of base salary ranging from 0-20 per cent. Jill Ainscough received performance pay of £25,000 for her work leading the Ofcom IT project, which rationalised and modernised Ofcom's IT infrastructure, to completion during the year. The project delivered significant benefits to Ofcom, both financial and operational, and provides a strong building block for Ofcom's work on the London 2012 Olympic Games and Paralympic Games.
17. Chris Banatvala is a member of the Ofcom Defined Benefit Pension Plan. A separate disclosure in relation to this plan has been made in the table on page 70.

NOTES TO THE REMUNERATION TABLES

Executive Disclosure for Defined Benefit Pensions

The disclosure for a defined benefit pension for Chris Banatvala is shown in the table below.

The accrued pension and transfer value for Chris Banatvala reflects the additional pension arising from a transfer-in of his benefits from his previous employer.

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

Service Agreements

No Executive Member of the Ofcom Board or other Ofcom colleague has a service agreement containing a notice period exceeding one year. The Remuneration Committee has considered the notice period and termination arrangements in the light of the UK Corporate Governance 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 Colette Bowe, Philip Graf and Millie Banerjee who currently commit up to three, 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.

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

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 position in question.

On behalf of Ofcom,

Millie Banerjee Chairman of the Remuneration Committee

16 June 2010

EXECUTIVE DISCLOSURE FOR DEFINED BENEFIT PENSIONS

	Accrued pension at 31 March 2009	Transfer value of accrued pensions at 31 March 2009 (31 March 2009 basis)	Accrued pension at 31 March 2010	Increase in accrued pension over period	Transfer value of accrued pension at 31 March 2010 (31 March 2009 basis)	Transfer value of accrued pension at 31 March 2010 (31 March 2010 basis)	Increase in transfer value less member's contributions
	£	£	£	£	£	£	£
Chris Banatvala	13,000	246,000	14,700	1,700	283,000	187,000	(65,000)

SECTION E

Accounts for the period 1 April 2009 to 31 March 2010

The Certificate 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 2010 under the Office of Communications Act 2002. These comprise the Statement of Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Office of Communications circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office of Communications; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

CERTIFICATE

OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Office of Communications affairs as at 31 March 2010 and of its net operating surplus, changes in equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Office of Communications Act 2002 and Secretaries of State for Business, Innovation and Skills and for Culture, Media and Sport directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretaries of State for Business, Innovation and Skills and for Culture, Media and Sport directions made under the Office of Communications Act 2002; and
- the information given in the Financial Performance, Foreword and The Ofcom Board sections included within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or

- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

23 June 2010

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

STATEMENT OF INCOME AND EXPENDITURE

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Income	4	132,735	131,910
Operating expenditure			
Staff costs	5	(62,276)	(58,376)
Other operating costs	7	(59,318)	(65,765)
Operating surplus		11,141	7,769
Vacant property	8	202	(3,786)
Asset impairment	11,12	-	(349)
Finance income		316	1,315
Finance costs	9	(23)	-
Other finance costs	18,24	(473)	(1,670)
Notional cost of capital	19	(212)	(1,288)
Surplus on ordinary activities		10,951	1,991
Reversal of notional cost of capital	19	212	1,288
Surplus for financial year before tax		11,163	3,279
Taxation	10	(151)	21
Surplus for financial year after tax		11,012	3,300

The accounting policies and notes on pages 77 to 103 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	Reserve £'000
Balance as at 31 March 2008 (UK GAAP)		39,623
Effect of changes under International Financial Reporting Standards	2	(30,012)
Restated balance as at 1 April 2008		9,611
Changes in equity for 2008/9		
Actual return less expected return on plan assets	24	(40,390)
Experience losses on pension scheme liabilities	24	(1,207)
Changes in assumptions underlying the present value of pension scheme liabilities	24	4,151
Decrease in minimum funding requirement	24	32,190
Surplus for year		3,300
Total recognised income and expense for 2008/9		(1,956)
Balance as at 31 March 2009		7,655
Changes in equity for 2009/10		
Actual return less expected return on plan assets	24	20,980
Experience gains on pension scheme liabilities	24	4,630
Changes in assumptions underlying the present value of pension scheme liabilities	24	(20,640)
Increase in minimum funding requirement liability	24	(6,410)
Surplus for year		11,012
Total recognised income and expense for 2009/10		9,572
Balance as at 31 March 2010		17,227

Further details on pensions are found in Note 24.

The accounting policies and notes on pages 77 to 103 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2010

	Notes	As at 31 March 2010 £'000	As at 31 March 2009 £'000	As at 31 March 2008 £'000
Non-current assets				
Property, plant and equipment	11	11,988	11,373	13,620
Intangible assets	12	14,932	17,694	15,302
Deferred tax asset	10	2,542	2,693	2,672
Trade and other receivables	14	468	299	728
Retirement benefit asset	24	1,586	-	-
Total non-current assets		31,516	32,059	32,322
Current assets				
Trade and other receivables	13	12,272	10,614	9,160
Cash and cash equivalents	15	35,348	39,055	52,346
Total current assets		47,620	49,669	61,506
Total assets		79,136	81,728	93,828
Current liabilities				
Trade and other payables	16	47,035	48,277	58,579
Provisions for liabilities and charges	18	1,134	1,376	1,692
Total current liabilities		48,169	49,653	60,271
Non-current liabilities				
Trade and other payables – amounts falling due after more than one year	17	10,523	11,931	12,678
Provisions for liabilities and charges	18	3,217	3,283	2,160
Retirement benefit obligations	24	-	9,206	9,108
Total non-current liabilities		13,740	24,420	23,946
Total liabilities		61,909	74,073	84,217
Assets less liabilities		17,227	7,655	9,611
Equity				
Reserves		17,227	7,655	9,611
Total equity		17,227	7,655	9,611

The accounting policies and notes on pages 77 to 103 form part of these financial statements. These financial statements were approved by the Board on 8 June 2010.

Colette Bowe
Chairman

Ed Richards
Chief Executive

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	Year ended 31 March 2010 £'000	Year ended 31 March 2009 £'000
Cash flows from operating activities			
Operating surplus		11,141	7,769
Adjustments for non-cash transactions			
Amortisation	12	5,109	4,323
Depreciation	11	2,911	3,479
Loss on disposal of property, plant and equipment	7	6	13
Profit on disposal of intangibles	7	-	-
Increase in trade and other receivables	13,14	(1,827)	(1,025)
Decrease in trade and other payables	16,17	(2,650)	(11,049)
Decrease in provisions	18	(169)	(3,006)
Increase in pension assets and liabilities	24	(12,642)	(6,801)
Net cash inflow/(outflow) from operating activities		1,879	(6,297)
Cash flows from investing activities			
Interest received		316	1,315
Interest paid	9	(23)	-
Purchases of property, plant and equipment	11	(3,580)	(1,613)
Purchases of intangibles	12	(2,347)	(6,735)
Proceeds from sale of property, plant and equipment		48	39
Net cash outflow from investing activities		(5,586)	(6,994)
Cash flows from financing activities			
Repayment of borrowings		-	-
Net cash (outflow)/inflow from financing activities		-	-
Decrease in cash and cash equivalents in the year		(3,707)	(13,291)
Cash and cash equivalents at beginning of year	15	39,055	52,346
Decrease in cash and cash equivalents in the year		(3,707)	(13,291)
Closing net funds	15	35,348	39,055

The accounting policies and notes on pages 77 to 103 form part of these financial statements.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

1. Basis of Presentation and Principal Accounting Policies

The Office of Communications (Ofcom) is a public corporation that provides a broad range of regulatory services, and is domiciled in the United Kingdom. The financial statements of the Organisation for 31 March 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Union.

These financial statements have been prepared under the historical cost convention modified by the revaluation of certain non-current assets, on a going concern basis, in accordance with International Financial Reporting Standards (IFRS). The financial statements are prepared on the basis of all IFRS accounting standards and interpretations and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation, except where these are overridden by the Office of Communications Act 2002. These financial statements are prepared under the Accounts Direction from the Departments for Business, Innovation and Skills (BIS) and Culture, Media and Sport (DCMS) issued on 16 January 2008 which forms part of the Financial Memorandum (FM) as approved by BIS and DCMS.

Amounts in the Financial Statements are stated in pounds sterling, which is the functional currency of the organisation.

A) IFRS 1 – FIRST-TIME ADOPTION

These financial statements are the first to be prepared in accordance with IFRS. The date of transition is 1 April 2008. IFRS 1 First-time Adoption of International Financial Reporting Standards allows entities adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the year of transition (i.e. 2008/9). Ofcom elected not to take any exemptions.

B) ADOPTION OF NEW AND REVISED STANDARDS

Certain new standards, amendments and interpretations to existing standards have been published but are not effective on Ofcom's accounting period.

Ofcom has early adopted the following IFRS and IFRIC Interpretations as of 1 April 2008:

- IAS 1 Presentation of Financial Statements (Revised), effective 1 January 2009

The following new standards, amendments and interpretations to existing standards are not yet effective and have not been early adopted by Ofcom:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Revised), effective 1 July 2009
- IFRS 2 (Amendment) Share-based payment, effective 1 January 2010
- IFRS 3 Business Combinations (Revised), effective 1 July 2009
- IAS 27 Consolidated and Separate Financial Statements (Revised), effective 1 July 2009
- IAS 32 Amendments to IAS 32 – Classification of rights issues, effective 1 February 2010
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items, effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners, effective 1 July 2009
- IFRIC 18 Transfers of Assets from Customers, effective 1 July 2009
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, effective 1 July 2010

The following new standards, amendments and interpretations to existing standards are effective in 2010:

- IFRS 7 Financial Instruments Disclosures: Improving Disclosures about Financial Instruments, effective 1 January 2009

The following new standards, amendments and interpretations to existing standards are effective but do not have an effect on Ofcom's operations:

- IFRS 2 Amendment to IFRS 2: Vesting Conditions and Cancellations, effective 1 January 2009
- IFRS 8 Operating Segments, effective 1 January 2009
- IAS 23 Borrowing Costs (Revised), effective 1 January 2009

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

1. Basis of Presentation and Principal Accounting Policies (continued)

- Amendment to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation, effective 1 January 2009
- Amendment to IFRIC 9 and IAS 39, effective 1 July 2008
- IFRIC 13 Customer Loyalty Programmes, effective 1 July 2008
- IFRIC 15 Agreements for the Construction of Real Estate, effective 1 January 2009
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation, effective 1 October 2008

The Board anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of Ofcom.

C) INCOME RECOGNITION

Income comprises the fair value of the consideration received or receivable in the ordinary course of Ofcom's activities. Income is shown net of value-added tax, returns, rebates and discounts.

Ofcom recognises income when the amount of income can be reliably measured and it is probable that future economic benefits will flow to the entity.

Grant-in-aid

This income comprises grant-in-aid from BIS to meet the costs of spectrum management, spectrum awards, spectrum clearance, *ex post* competition, public interest and from DCMS in respect of media literacy. Grant-in-aid received from BIS and DCMS is allocated and matched to costs in the year to which it relates.

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 is classified as deferred income on the Statement of Financial Position. Cash costs in excess of income received are classified as a receivable at the end of the reporting date.

Broadcasting licence fees

Income from broadcasting licence fees represents the amount invoiced to licensees and is accounted for on an accruals basis. Income in excess of broadcasting's cash costs is classified as deferred income on the Statement of Financial Position. Cash costs in excess of income received

are classified as a receivable at the end of the reporting date.

Application fees

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

Other income

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

In accordance with Section 400 of the Communications Act 2003, Broadcasting Act Additional Payments and Penalties and Fines levied by Ofcom are remitted to the Consolidated Fund. Licence fees levied by Ofcom arising from the issue or renewal of licences under the Wireless Telegraphy (WT) Acts are also remitted to BIS for payment to the Consolidated Fund.

No entries are made in these Financial Statements in respect of Section 400-related transactions, unless payments and fees have been collected and deposited into Ofcom's main bank account at the end of the reporting date. These are shown as due to the Consolidated Fund within Payables due within one year.

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

E) LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made and received under operating leases are recognised in Income or Expenditure on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease value, over the non-cancellable term of the lease.

F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include the purchase of new assets and extensions to, enhancements to, or replacement of existing assets.

A Treasury direction on property, plant and equipment allows Ofcom to use depreciated historical cost as a proxy

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

1. Basis of Presentation and Principal Accounting Policies (continued)

for current valuation for non-property assets of a short useful life or low value. All Ofcom assets fall in this category. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment is recorded at cost or deemed cost at the date of transition to IFRS, less accumulated depreciation and any impairment losses. Property, plant and equipment over £2,500 are capitalised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Ofcom and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Income and Expenditure during the financial period in which they are incurred.

Property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful lives. In assessing estimated useful lives, which are reviewed on an annual basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets.

Depreciation is calculated from the month following that in which an asset is brought into service over the estimated useful life of the asset. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Fixtures & fittings – leasehold improvements	Period of the lease
Fixtures & fittings – furniture	7 years
Office and field equipment	4 to 7 years
Computer hardware	3 to 5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Loss/ (Profit) on disposal of non-current assets' in 'Other operating costs' per the Statement of Income and Expenditure.

G) INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated amortisation using the revaluation model where the impact of revaluation is material, and are reviewed annually for impairment. Expenditure capitalised includes the costs of software applications and development and related licences fees.

Internally generated intangible non-current assets, such as computer software, are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred. Development expenditure previously recognised as an expense is not recognised as an asset in a subsequent period.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Amortisation on capitalised development costs is charged to the income statement on a straight-line basis, from the month following that in which an asset is brought into service, over the estimated useful life of the asset. The estimated useful life is three to five years.

Assets under construction comprise costs incurred in developing computer systems, which will replace some of the current applications. Research expenditure is written off as incurred to the Statement of Income and Expenditure. No amortisation is provided on assets in the course of construction.

H) IMPAIRMENT OF ASSETS

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower.

Recoverable amount is defined as the higher of fair value less costs to sell and estimated value in use at the date the impairment review is undertaken. For the purposes of

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

1. Basis of Presentation and Principal Accounting Policies (continued)

assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

At each reporting date, the carrying value of non-current assets is reviewed to determine if there is some indication that the carrying value of the assets may have been impaired. Material impairments are recognised separately in the Statement of Income and Expenditure. Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

I) TRADE RECEIVABLES

Trade receivables are amounts due from stakeholders for licences, fees and charges. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks and rent deposits.

K) TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

L) EMPLOYEE BENEFITS

Pension schemes

Ofcom has a range of pension schemes which include defined contributions plans, defined benefit plans and

unfunded plans.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in income and expenditure in line with the service that gives rise to the obligation. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

New staff may join a stakeholder pension scheme, which is a defined contribution scheme.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Ofcom's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of Ofcom's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to Ofcom, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside income and expenditure and presented in the Statement of Changes in Equity.

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 first Ofcom Defined Benefit Pension Plan provides benefits that are broadly equivalent to the Principal Civil Service Pension Scheme (PCSPS). Ofcom jointly participates with the Advertising Standards Authority in the scheme. The second scheme is the Ofcom (Former ITC)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

1. Basis of Presentation and Principal Accounting Policies (continued)

Staff Pension Plan where Ofcom is one of four participating employers. The assets of this scheme are held in a separately administered trust.

IAS 19 requires that, where a scheme is in surplus according to the IAS 19 assumptions, the surplus can only be recognised on an entity's Statement of Financial Position if an economic benefit is "available" to the entity as a result of the surplus.

IFRIC 14 applies to all post employment defined benefits and other long term employee defined benefits. Ofcom follows the interpretation of this standard.

Unfunded schemes

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 The Office of Telecommunications. These are unfunded schemes and are accounted for under IAS 19 with a provision included in Ofcom's Statement of Financial Position for the actuarial valuation of the liabilities.

Other Employee Benefits

Early retirement 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 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. These additional costs are based on the discounted value of the annual amounts payable at the reporting date and are included in provisions. The actual amounts payable increase annually in accordance with PCSPS rules.

Colleague leave liability

Under IAS 19 Employee Benefits, all costs must be recorded as an expense as soon as the obligation to pay employees arises. This includes the cost of any untaken leave as at the year end. An accrual using current salary data and leave records is included as part of accruals.

Colleagues who have completed five years of continuous service are entitled to a paid sabbatical of five weeks and thereafter accrue one week for each additional year subject to a maximum of ten weeks. An accrual, based on management's best estimates using current salary data

and churn rates is included as part of accruals. As from 1st January 2008, this benefit was withdrawn for new employees.

M) PROVISIONS

Provisions for annual leave, early retirement, vacant property, restructuring costs and legal claims are recognised when: Ofcom has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Ofcom provides for obligations relating to excess leased space in its properties, discounted by the Treasury discount rate, currently set at 2.2 per cent. The provisions represent the net present value of the future estimated costs after recognising reasonably certain future rental income. The unwinding of the discount is included within other finance costs in the Statement of Income and Expenditure

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

N) 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.

O) 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 reporting date with the resulting profit or loss recognised in the Statement of Income and Expenditure for the year.

P) FINANCIAL INSTRUMENTS AND CREDIT RISK

Borrowings

Ofcom has limited powers to borrow money to fund short-term fluctuations in cash flow.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

1. Basis of Presentation and Principal Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and rent deposits. Interest income receivable on cash and cash equivalents is recognised as it is earned.

Trade receivables

Trade and other receivables are non-interest bearing and stated at fair value. Provision is made where there is evidence that the balances will not be recovered in full.

Trade payables

Trade payables are not interest bearing and are stated at their fair value.

Q) CURRENT AND DEFERRED INCOME 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 regulatory activities.

Corporation Tax is assessable on interest received, and in respect of rental income net of property expenditure arising from letting surplus property.

At the reporting date, Ofcom had unutilised tax losses available for offset against future taxable income. These losses have arisen as a result of onerous lease provisions on properties inherited from predecessor bodies that were excess to requirements when Ofcom was incorporated.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities relating to taxable activities, and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which they can be utilised.

Recognition of deferred tax assets

The carrying amount of deferred tax assets is reviewed at each reporting date. When assessing the probability of a taxable profit being available, account is taken of prior year results, forecast future results and non-recurring items unlikely to occur in the future. As such, the assessment of

the Organisation's ability to utilise tax losses carried forward is to a large extent judgement based. If future taxable results prove significantly different from those expected, the carrying amount of deferred tax assets will be increased or decreased, with a potentially material impact on the Statement of Financial Position and Statement of Income and Expenditure.

Deferred tax assets are measured at the tax rates expected to apply to Ofcom when the asset is realised based on tax rates enacted or substantially enacted by the end of the reporting period.

R) SEGMENTAL ANALYSIS

A segment is a distinguishable component of the organisation that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and is subject to risks and rewards that are different from those of other segments. No analysis of Ofcom's turnover from operations by geographical segment or business segment has been presented as all Ofcom's activities are carried out in the UK and within the regulatory sector. However, in order to meet with the requirements of the Communications Act 2003 to provide information on costs and fees, Note 3 to these financial statements presents the Statement of Income and Expenditure for the year under review by sector.

S) CAPITAL CHARGE

Under the terms of Ofcom's Financial Memorandum issued by BIS, a debit, 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 on the carrying amount of all relevant assets less relevant liabilities. This charge is reversed to determine the retained surplus on ordinary activities before taxation.

T) AREAS OF JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

1. Basis of Presentation and Principal Accounting Policies (continued)

of revenue and expenses during the reporting period.

Actual results could differ from these estimates. Information about such judgements and estimations is contained in the accounting policies or the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- Revenue recognition and assessment of unbilled revenue – accounting policy C
- Deferred tax asset utilisation in respect of available future taxable profits – accounting policy Q

Key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Estimation of liabilities for pension and other post-retirement benefits – accounting policy L

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

2. Adoption of International Financial Reporting Standards (IFRS)

With effect from 1 April 2009, Ofcom is required to report its consolidated financial statements in accordance with IFRS as adopted by the EU. The transition date chosen for the adoption of IFRS is 1 April 2008. The table below presents the impact of conversion from UK Generally Accepted Accounting Practice (UK GAAP) to IFRS on the Statement of Financial Position.

A) IMPACT OF ADOPTION OF IFRS ON EQUITY AT 1 APRIL 2008

The following is a summary of the IFRS measurement and presentation adjustments as they affected net assets at 1 April 2008 (the date of adoption of IFRS) and 31 March 2009, which arise as a consequence of applying IFRS measurement principles as compared with UK GAAP.

	Reserves £'000
Equity at 31 March 2008 under UK Generally Accepted Accounting Practice	39,623
Adjustments for:	
IAS 19 Employee Benefits – Accrued untaken paid leave	(795)
IAS 17 Leases and SIC 15 Operating Leases-Incentives	(13,692)
IAS 19 & IFRIC 14 – Pensions and other post-retirement benefits	(18,120)
IAS 12 Income Taxes	2,672
IAS 36 Impairment of Assets	(77)
Equity at 1 April 2008 under International Financial Reporting Standards	9,611
Equity at 31 March 2009 under UK Generally Accepted Accounting Practice	35,996
Adjustments for:	
IAS 19 Employee Benefits – Accrued untaken paid leave	(893)
IAS 17 Leases and SIC 15 Operating Leases-Incentives	(12,611)
IAS 19 & IFRIC 14 – Pensions and other post-retirement benefits	(17,530)
IAS 12 Income Taxes	2,693
Equity at 31 March 2009 under International Financial Reporting Standards	7,655

B) IMPACT OF ADOPTION OF IFRS ON SURPLUS AT 31 MARCH 2009

The following is a summary of the IFRS measurement and presentation adjustments as they affected the surplus at 31 March 2009, which arise as a consequence of applying IFRS measurement principles as compared with UK GAAP.

	Surplus £'000
Surplus at 31 March 2009 under UK Generally Accepted Accounting Practice	2,219
Adjustments for:	
IAS 19 Employee Benefits – Accrued untaken paid leave	(98)
IAS 17 Leases and SIC 15 Operating Leases-Incentives	1,081
IAS 12 Income Taxes	21
IAS 36 Impairment of Assets	77
Surplus at 31 March 2009 under International Financial Reporting Standards	3,300

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

2. Adoption of International Financial Reporting Standards (IFRS) (continued)

C) IMPACT OF ADOPTION OF IFRS ON CASH FLOWS AT 31 MARCH 2009

The adoption of IFRS has no impact on the cash position of Ofcom. No reconciliation is therefore required for prior year cash flow.

D) IFRS MEASUREMENT ADJUSTMENTS

The following relate to the measurement adjustments included in the Statement of Income and Expenditure and Statement of Financial Position.

1. Accrual for leave pay

Under IAS 19 Employee Benefits, all costs must be recorded as an expense as soon as the obligation to pay employees arises. This includes the cost of any untaken leave as at the year end. Provisions are recognised where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can reasonably be estimated. Provisions are recognised for the estimated ultimate liability that is expected to arise.

2. Operating Leases-Incentives

In terms of IAS 17 Leases and SIC 15 Operating Leases-Incentives, lease incentives are required to be recognised over the life of the non-cancellable portion of the lease to which the incentives relate. The adjustment reflects the balance of the incentive after apportioning the benefit on a straight-line basis.

3. Pensions and other post-retirement benefits

Under UK GAAP, Ofcom's pensions and other post-retirement benefits were accounted for under FRS 17 Retirement Benefits prior to the date of transition. Under IFRS, these benefits are accounted for under IAS 19 Employee Benefits, with Ofcom recognising all of its net pension and other post-retirement benefit obligations in the Statement of Financial Position at 1 April 2008 with a corresponding adjustment to opening reserves.

IFRIC 14 applies to all post-employment defined benefits and other long term employee defined benefits. Ofcom follows the interpretation of this standard. Refer to Note 24 for further detail.

4. Deferred tax asset

Under UK GAAP, a deferred tax asset was not raised as the asset would not be realised within the foreseeable future. Under IAS 12 Income taxes there is no specified time period under which tax losses should be recovered; therefore a deferred tax asset has been raised.

5. Effect on non-current assets due to impairment movement

Assets with a net book value of £76,703 were impaired as at 1 April 2008 in line with the requirements of IAS 36 Impairment of Assets. Refer to the Property, plant and equipment Note 11 and Intangible asset Note 12 for further details.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

3. Sectoral analysis

The analysis below refers to income by sector for the year ended 31 March 2010, together with attributable costs. This is prepared in accordance with the Communications Act 2003 and not in terms of IFRS 8 Segmental Reporting, as per the accounting policy 1 (R)

	Spectrum management	Spectrum clearance	Spectrum awards	Networks & services	Broadcasting	Other income	31 March 2010 Total £'000	31 March 2009 Total £'000
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue								
Licence and administration fees	-	-	-	27,416	23,006	-	50,422	52,315
Application fees	-	-	-	30	569	-	599	607
Grant-in-aid	73,290	-	3,812	-	-	2,661	79,763	81,087
Other income	-	-	-	-	-	2,000	2,000	2,004
Accrued/(Deferred) income	(2,668)	-	(651)	3,651	(289)	(396)	(353)	(5,209)
Total revenue	70,622	-	3,161	31,097	23,286	4,265	132,431	130,804
Rental and other Income	166	-	-	73	55	10	304	1,106
Operating income	70,788	-	3,161	31,170	23,341	4,275	132,735	131,910
Interest receivable	173	-	-	76	57	10	316	1,315
Total income	70,961	-	3,161	31,246	23,398	4,285	133,051	133,225
Loan repayments	-	-	-	-	-	-	-	-
Interest payable	-	-	-	-	-	-	-	-
Net operating income	70,961	-	3,161	31,246	23,398	4,285	133,051	133,225
Onerous property and accrued rental income	1,138	-	-	501	375	69	2,083	950
Cash income	72,099	-	3,161	31,747	23,773	4,354	135,134	134,175
Total costs	(72,099)	-	(3,161)	(31,747)	(23,773)	(4,354)	(135,134)	(134,175)
Surplus on cash cost basis	-	-	-	-	-	-	-	-

Comparative costs by sector							
Year ending 31 March 2010	(72,099)	-	(3,161)	(31,747)	(23,773)	(4,354)	(135,134)
Year ending 31 March 2009	(73,168)	(746)	(2,437)	(28,027)	(25,763)	(4,034)	(134,175)

Other income comprises:

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

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

3. Sectoral analysis (continued)

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

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

RECONCILIATION FROM OPERATING EXPENDITURE TO ACTUAL OPERATING OUT-TURN

	Notes	2010 £'000	2009 £'000
Operating expenditure – Statement of Income and Expenditure		121,594	124,141
Adjustments in respect of pension asset and liability		12,580	6,740
Vacant property costs	18	182	134
Capital expenditure less depreciation		(2,093)	559
Actual rent payments less expenditure		1,193	1,290
Other adjustments		1,726	1,350
Proceeds from fixed assets		(48)	(39)
Cash operating expenditure		135,134	134,175
Spectrum clearance		-	(746)
Spectrum awards		(3,161)	(2,436)
Non-operating Income		(2,703)	(3,370)
Actual operating costs out-turn		129,270	127,623

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

4. Income

	2010 £'000	2009 £'000
Grant-in-aid BIS		
Spectrum management	70,622	71,286
Spectrum clearance scheme	-	746
Spectrum awards	3,161	2,437
Competition law enforcement	1,041	752
Public interest test	-	-
Integration of postal service regulation	305	633
Enterprise Act Super-Complaint	-	142
Peer to peer illegal file sharing	31	179
Local media assessment	95	-
Digital participation	429	-
Grant-in-aid DCMS		
Media literacy	559	559
Total government grant-in-aid	76,243	76,734
Networks & services administrative and application fees	31,097	27,306
Broadcasting Act licence and application fees	23,286	25,100
Rental income	251	985
Other income	1,858	1,785
Total income	132,735	131,910

5. Staff costs

	2010 £'000	2009 £'000
Staff costs, including fees paid to Board Members, were:		
Salaries & benefits	50,798	47,191
National Insurance costs	5,469	5,545
Pension costs	5,392	5,331
Restructuring costs	617	309
Total staff costs	62,276	58,376

The restructuring cost includes a provision for 4 (2009: 4) employees.

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 64 to 70.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

6. Employee numbers

	2010	2009
The average number of employees	865	817

As at 31 March 2010, Ofcom had 873 employees (2009: 853).

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

7. Other operating costs

	2010 £'000	2009 £'000
Auditors' remuneration – statutory audit fees	103	90
Auditors' remuneration – Section 400	17	-
Auditors' remuneration – IFRS	-	10
Professional fees	10,882	11,556
Outsourced services	8,847	8,886
Audience and consumer research	4,665	5,834
Technological research and spectrum efficiency projects	2,655	2,526
Spectrum clearance scheme	-	746
Temporary staff and recruitment	3,377	3,600
Seconded staff	47	215
Travel and subsistence	1,408	1,764
Premises costs	7,814	9,943
Administration and office expenses	8,276	8,500
Information and technology costs	2,777	3,873
Vehicles	390	267
Bad and doubtful debt	34	141
Amortisation	5,109	4,323
Depreciation	2,911	3,478
Loss on disposal of non-current assets	6	13
Total other operating costs	59,318	65,765
The costs, above, include:		
Operating leases – land and buildings	6,249	6,877
Operating leases – vehicles	220	8
Operating leases – other	117	128

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

8. Vacant property charge

	2010 £'000	2009 £'000
Future costs of vacant properties	202	(3,786)

In the course of 2009/10, new tenants have been secured for all vacant floors in Riverside House. In addition, leases on three smaller regional properties have expired or have been terminated. As a result, a corresponding element of the provision for vacant properties, as reported in Note 18, has been released.

9. Interest paid

	2010 £'000	2009 £'000
Interest paid	23	-

10. Taxation

	2010 £'000	2009 £'000	2008 £'000
Tax (charge)/credit for the year			
United Kingdom Corporation Tax (expense)/income	-	-	-
Deferred tax (debit)/credit	(151)	21	2,672
Tax (charged)/credited to Statement of Income and Expenditure	(151)	21	2,672

Reconciliation of tax charge			
Surplus before tax	11,163	3,280	8,310
Tax on profit at the UK standard rate of Corporation Tax of 21% (2009: 21%)	2,344	689	2,327
Income not subject to tax	(27,832)	(27,416)	(39,480)
Expenses not deductible	25,639	26,038	37,454
(Utilisation of)/Increase in brought forward tax losses	(151)	689	(301)
Tax charge	-	-	-

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

10. Taxation (continued)

	Tax losses £'000
Deferred tax	
Analysis of movements in the net deferred tax balance during the year	
Deferred tax asset at 1 April 2008	2,672
Effect of change in applicable tax rate	(668)
Increase in brought forward tax losses	689
Deferred tax asset at 1 April 2009	2,693
Utilisation of brought forward tax losses	(151)
Deferred tax asset at 31 March 2010	2,542
Deferred tax asset to be recovered within 12 months	37
Deferred tax asset to be recovered after more than 12 months	2,505
	2,542

All deferred tax assets relate to brought forward tax losses. Utilisation of the deferred tax asset is dependent on future taxable profits arising.

The assessed losses have arisen predominantly as a result of onerous lease provisions on properties inherited from predecessor bodies that were in excess of requirements when Ofcom was incorporated.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

11. Property, plant and equipment

	Leasehold improvements	Fixtures & fittings	Office & field equipment	Computer hardware	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
COST						
At 1 April 2008	11,569	2,995	12,151	3,910	1,307	31,932
Additions during year	324	165	313	811	-	1,613
Impairment	-	(149)	(1,856)	(355)	-	(2,360)
Disposals	(6)	(14)	-	(29)	(235)	(284)
Transfers	2,258	(2,258)	-	-	-	-
At 31 March 2009	14,145	739	10,608	4,337	1,072	30,901
Additions during year	412	162	2,907	99	-	3,580
Impairment	-	-	-	-	-	-
Disposals	(95)	(73)	(46)	(451)	(516)	(1,181)
Transfers	-	-	-	-	-	-
Cost at 31 March 2010	14,462	828	13,469	3,985	556	33,300
DEPRECIATION						
At 1 April 2008	5,601	1,169	8,290	2,079	1,173	18,312
Charge for the year	825	70	1,509	978	97	3,479
Impairment	-	(102)	(1,640)	(289)	-	(2,031)
Disposals	-	(1)	0	(2)	(229)	(232)
Transfers	719	(719)	0	-	-	0
At 31 March 2009	7,145	417	8,159	2,766	1,041	19,528
Charge for the year	925	73	1,108	789	16	2,911
Impairment	-	-	-	-	-	-
Disposals	(44)	(73)	(45)	(449)	(516)	(1,127)
Transfers	-	-	-	-	-	-
Accumulated depreciation at 31 March 2010	8,026	417	9,222	3,106	541	21,312
NBV 31 March 2010	6,436	411	4,247	879	15	11,988
NBV 31 March 2009	7,000	322	2,449	1,571	31	11,373
NBV 1 April 2008	5,968	1,826	3,861	1,831	134	13,620

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

12. Intangible assets

	Software licences £'000	Information technology £'000	Development expenditure £'000	Total £'000
COST				
At 1 April 2008	2,672	12,558	4,105	19,335
Additions during year	2,639	880	3,216	6,735
Impairment	(68)	(269)	-	(337)
Disposals	-	-	-	-
Transfers	-	6,982	(6,982)	-
At 31 March 2009	5,243	20,151	339	25,733
Additions during year	-	817	1,530	2,347
Impairment	-	-	-	-
Disposals	(76)	(61)	-	(137)
Transfers	-	198	(198)	-
Cost at 31 March 2010	5,167	21,105	1,671	27,943
AMORTISATION				
At 1 April 2008	1,042	2,991	-	4,033
Charge for the year	706	3,617	-	4,323
Impairment	(66)	(251)	-	(317)
Disposals	-	-	-	-
Transfers	-	-	-	-
At 31 March 2009	1,682	6,357	-	8,039
Charge for the year	1,024	4,085	-	5,109
Impairment	-	-	-	-
Disposals	(76)	(61)	-	(137)
Transfers	-	-	-	-
Accumulated amortisation at 31 March 2010	2,630	10,381	-	13,011
NBV 31 March 2010	2,537	10,724	1,671	14,932
NBV 31 March 2009	3,561	13,794	339	17,694
NBV 1 April 2008	1,630	9,567	4,105	15,302

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

13. Trade and other receivables – amounts falling due within one year

	2010 £'000	2009 £'000	2008 £'000
Trade receivables	2,092	3,651	1,354
Other receivables	189	195	270
Prepayments	4,892	5,415	3,322
Staff loans and advances	261	255	270
Accrued income	4,838	1,098	3,944
Total trade and other receivables – amounts falling due within one year	12,272	10,614	9,160

Staff loans include 186 (2009:183) season ticket loans.

14. Trade and other receivables – amounts receivable after more than one year

	2010 £'000	2009 £'000	2008 £'000
Accrued income	468	299	728
Total trade and other receivables – amounts receivable after more than one year	468	299	728

15. Cash and cash equivalents

	2010 £'000	2009 £'000	2008 £'000
Commercial banks and cash in hand	35,348	39,055	52,247
Balance of funds relating to Section 400	-	-	99
Total cash and cash equivalents	35,348	39,055	52,346

In line with HM Treasury guidelines, the balance of funds relating to Section 400 was transferred to Citi Bank with effect from October 2009.

All activities and cash balances relating to Licence Fees and Penalties are separated from the Ofcom accounts and are disclosed in the Section 400 accounts.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

16. Trade and other payables – amounts falling due within one year

	2010 £'000	2009 £'000	2008 £'000
Trade payables	535	1,829	7,654
Other tax and social security	-	-	1,613
Other payables	713	1,001	508
Value added tax payable	34	375	1,083
Grant-in-aid BIS	29,238	28,385	28,084
Accruals	13,800	13,518	17,469
Lease incentive accrual	1,316	1,211	1,268
Deferred income	1,399	1,958	900
Total trade and other payables – amounts falling due within one year	47,035	48,277	58,579

17. Trade and other payables – amounts falling due after more than one year

	2010 £'000	2009 £'000	2008 £'000
Lease incentive accrual	9,870	11,168	12,379
Deferred income	653	763	299
Total trade and other payables – amounts falling due after more than one year	10,523	11,931	12,678

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

18. Provisions for liabilities and charges

Total as at 31 March 2010	Early retirement £'000	Vacant property £'000	Restructuring £'000	Legal £'000	Total £'000
At 1 April 2008	853	259	1,685	1,055	3,852
IFRS adjustment	-	-	-	-	-
Restated balance as at 1 April 2008	853	259	1,685	1,055	3,852
Discount unwound in year	19	6	-	-	25
Utilised in year	(327)	(134)	(1,685)	(210)	(2,356)
Provision increased/(released)	90	3,786	107	(845)	3,138
At 1 April 2009	635	3,917	107	-	4,659
Discount unwound in year	14	48	-	-	62
Utilised in year	(213)	(182)	(107)	-	(502)
Provision increased/(released)	49	(202)	285	-	132
Total provisions as at 31 March 2010	485	3,581	285	-	4,351

Provisions are calculated in accordance with the requirements of IAS 37. Provisions are discounted by 2.2 per cent (2009: 2.2 per cent) per annum.

Analysis of expected timing of cashflows	Early retirement £'000	Vacant property £'000	Restructuring £'000	Legal £'000	Total £'000
Current					
Not later than one year	169	680	285	-	1,134
	169	680	285	-	1,134
Non-current					
Later than one year and not later than five years	197	1,675	-	-	1,872
Later than five years	119	1,226	-	-	1,345
	316	2,901	-	-	3,217
	485	3,581	285	-	4,351

The provision for early retirement £0.5m (2009: £0.6m) is for early retirement costs of former employees of Oftel, the Radiocommunications Agency and Ofcom and is payable primarily in the years to 2014.

The provision for vacant properties includes three properties (2009: six) which are surplus to requirements. Professional advice has been taken in marketing vacant property and future income streams are recognised as and when sub-letting of properties is reasonably certain. The provision is the net present value of the expected cash outflows calculated to the next lease break, net of the discounted value of future income streams secured from committed and reasonably certain future sub-letting agreements. As a result of securing new tenants for vacant floors in Riverside House and of terminating leases on three regional properties surplus to requirements, an element of the provision has been released.

A provision of £0.3m (2009: £0.1m) for future redundancy costs is expected to be paid in the next financial year.

Legal provisions reflect an assessment of costs relating to challenges to regulatory decisions which are expected to crystallise within the next financial year. As at the end of March 2010, Ofcom counsel is not aware of any such probable litigation costs.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

19. Cost of capital

Cost of capital is calculated at 3.5 per cent (2009: 3.5 per cent) per annum in accordance with HM Treasury guidance. Consolidated Fund payables have been excluded in accordance with standard government accounting practice.

20. Commitments under operating leases

	Buildings £'000	Vehicles £'000	Other £'000	Total £'000
The future aggregate minimum lease payments under operating leases are as follows:				
Not later than one year	8,491	348	93	8,932
Later than one year and not later than five years	32,819	1,160	132	34,111
Later than five years	28,591	-	-	28,591
Total commitments under operating leases	69,901	1,508	225	71,634

The rental agreement of Riverside House is until September 2022 with a break option in September 2018. The next rent review will be on 29 September 2012.

21. Amounts receivable under operating leases

	Buildings 2010 £'000
The future minimum lease payments receivable under non-cancellable operating leases are as follows:	
Not later than one year	432
Later than one year and no later than five years	2,145
Later than five years	-
Total amounts receivable under operating leases	2,577

Ofcom has entered into sub-lease contracts with regards to surplus office space within its main office building.

22. Subsidiaries

Broadcast Equality and Training 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 £0.4m (2009: £0.3m), an operating profit after taxation of £0.0m (2009: £0.2m loss) and reserves of £0.0m (2009: £0.0m). 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.

23. MG Alba

In accordance with Section 210 of the Communications Act 2003 and Section 183 of the Broadcasting Act 1990, the Scottish Ministers paid £12.4m (2009: £12.4m) 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 MG Alba. MG Alba 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.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

24. Retirement benefit obligations

Ofcom has a range of pension schemes which include defined contributions plans, defined benefit plans and unfunded plans.

	2010 £'000	2009 £'000
DB pensions	2,480	(8,330)
Unfunded pensions liability	(894)	(876)
Total retirement benefit obligations	1,586	(9,206)

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 of £3.7m were made in the year ended 31 March 2010 (2009: £3.4m).

b) Closed pension plans

Ofcom operates two closed defined benefit pension plans:

- The Ofcom Defined Benefit Pension Plan was established on 29 December 2003. The employer contributions made to the Ofcom Defined Benefit Pension Plan for the year ending 31 March 2010 were £0m (2009: £3.8m). The £3.8m included a prepayment in advance of £2.8m for 2009/10. Ofcom also operates a defined contribution section to the plan and made contributions of £0.1m in 2010 (2009: £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. The employer contributions made to the Ofcom (former ITC) Pension Plan in 2010 were £0m (2009: £2.1m). This included a prepayment in advance of £2m for 2009/10.

EMPLOYEE BENEFIT OBLIGATIONS

The amounts recognised in the Statement of Financial position are as follows:	2010 £'000	2009 £'000
Funded status, end of year		
Fair value of plan assets	199,670	178,370
Pension fund feeder bank account	16,520	2,500
Benefit obligations	(189,180)	(171,080)
Funded status	27,010	9,790
Minimum funding requirement liability	(24,530)	(18,120)
Net funded status	2,480	(8,330)

According to IFRIC 14 if an entity's contributions to its defined benefit scheme are subject to a "minimum funding requirement" it is possible that this may limit the ability of the entity to reduce future contributions and/or give rise to a liability if the required contributions will not be available to the entity once they have been paid. Ofcom regards the current Schedule of Contributions agreed between Ofcom and the Plan's trustees as part of the Statutory Funding Objective to be a "minimum funding requirement" which results in a liability.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

24. Retirement benefit obligations (continued)

The amounts recognised in the Statement of Income and Expenditure are as follows:	2010 £'000	2009 £'000
Current service cost	1,420	1,680
Interest on obligation	10,480	10,920
Expected return on plan assets	(10,120)	(9,330)
Past service cost	-	80
Losses/(gains) on curtailments and settlements from past service costs	-	(80)
Curtailment or settlement (gain)/loss	-	-
Previously unrecognised surplus deducted from curtailment loss	-	-
Net benefit cost in income and expenditure	1,780	3,270
Actual return on plan assets	(31,100)	(31,070)

Changes in the present value of the defined benefit obligation areas:	2010 £'000	2009 £'000
Opening defined benefit obligation	171,080	171,360
Current service cost	1,420	1,680
Interest cost	10,480	10,920
Plan participants' contributions	240	210
Actuarial losses/(gains)	15,980	(3,030)
Past service cost	-	80
Losses/(gains) on curtailment	-	-
Benefits paid	(10,020)	(10,140)
Closing defined benefit obligation	189,180	171,080

Changes in the fair value of plan assets are as follows:	2010 £'000	2009 £'000
Opening fair value of plan assets	178,370	213,440
Expected return	10,090	9,330
Actuarial gains/(losses)	20,990	(40,390)
Contributions by employer	-	5,920
Plan participants' contributions	240	210
Benefits paid	(10,020)	(10,140)
Closing fair value of plan assets	199,670	178,370

Employer's contributions exclude £14m (2009: £2.5m) which has been placed in a trust account. Funds transferred to and held in the trust account can only be paid into one of the two Defined Benefit Pension Schemes and are not able to be used for any other purpose.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

24. Retirement benefit obligations (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:	2010 %	2009 %
Equities	16	17
Corporate bonds	5	2
Index-linked bonds	16	9
Fixed interest government bonds	-	3
Annuities	55	65
Other (including assets in the Ofcom Pension Trust)	8	4
	100	100

Return on assets (before deduction of expenses):	2010 %	2009 %
Equities	7.5	7.0
Corporate bonds	5.7	6.3
Index-linked bonds	4.5	4.0
Fixed interest government bonds	4.5	4.0
Annuities	5.7	6.3
Other (including assets in the Ofcom Pension Trust)	1.0	1.0

The expected return on plan assets is calculated using the plan's asset allocation at the disclosure date and the expected return on each major asset class that the plan is invested in.

Principal actuarial assumptions at the date of the Statement of Financial Position (expressed in weighted averages):	2010 %	2009 %
Discount rate	5.7	6.3
Expected return on plan assets for the year (Ofcom DB Plan)	6.3	6.3
Expected return on plan assets for the year (Ofcom (former ITC) Plan)	5.7	6.1
Future salary increases	4.6	4.0
Future pension increases	3.6	3.0
Retail price inflation	3.6	3.0

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

24. Retirement benefit obligations (continued)

Amounts for the current and previous years are as follows:	2010 £'000	2009 £'000
Funded status		
Fair value of plan assets	216,190	180,870
Present value of defined benefit obligations	(189,180)	(171,080)
Surplus in fund	27,010	9,790
Experience adjustments on plan liabilities	4,610	(1,207)
Experience adjustments on plan assets	20,980	(40,390)

IAS 19 requires the above information to be shown for the previous four years; however, as IFRS was adopted from 1 April 2008, historical data from this date only is disclosed.

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 Directors General 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.

Analysis of the amount debited to other finance costs	2010 £'000	2009 £'000
Interest on pension liabilities	(50)	(55)
Net return	(50)	(55)

Analysis of the amount recognised in the Statement of Changes in Equity (SOCIE)	2010 £'000	2009 £'000
Experience gains/(losses) arising on the plans' liabilities	20	(7)
Changes in assumptions underlying the present value of pension scheme liabilities	(50)	1
Actuarial loss recognised in SOCIE	(30)	(6)

Movement in deficit during the year	2010 £'000	2009 £'000
Deficit in plans at 1 April	876	876
Total current service cost	-	-
Employer's contributions (including those unpaid at measurement date)	(62)	(61)
Employee contributions	-	-
Other finance costs	50	55
Actuarial loss/ (gain)	30	6
Deficit in plans	894	876

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

25. 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 IAS 24, "Related Party Disclosures".

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 transactions between Ofcom and its Members other than remuneration as disclosed separately in the remuneration report.

The Secretaries of State for the Department for Business, Innovation and Skills 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 all grant-in-aid income from BIS and DCMS are provided in Note 4 and Note 16 respectively of these financial statements.

A defined benefit scheme and two defined contribution schemes are operated. Refer to Note 24 for further disclosure.

At 31 March 2010, the following creditors were held in respect of grant-in-aid provided by BIS:

- Spectrum management – £22.6m (2009: £25.5m);
- Spectrum clearance – £4.1m (2009: nil);
- Programme of spectrum awards – £1.8m (2009: £1.9m);
- Competition law enforcement – £0.7m (2009: £0.6m);
- Local media assessments – £0.1 (2009: nil)
- Integration of postal service regulation – nil (2009: £0.3m).

No other related party transactions were entered into during the financial year.

26. Financial instruments

Ofcom has no significant exposure to liquidity, interest rate or currency risks. IAS 32 Financial Instruments: Presentation, 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 limited role in creating or changing risk as compared to listed companies to which IAS 32 mainly applies. Ofcom has very limited powers to borrow or invest surplus funds. 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 reporting date between the fair value and the carrying value of financial assets and liabilities.

As permitted by IAS 32, receivables and payables which mature or become payable within 12 months of the reporting date have been omitted from this assessment.

27. Capital commitments

At 31 March 2010 there were capital commitments of £0.6m (2009: £1.0m), primarily relating to the refurbishment of a new site and the video conferencing managed service.

28. Receipts transferred to the Consolidated Fund

In accordance with Section 400 of the Communications Act 2003, Ofcom remitted £26.8m (2009: £43.5m) of Broadcasting Act Additional Payments and Fines to the Consolidated Fund.

£165.9m (2009: £182.9m) of WT Act licence fees was remitted to BIS for transfer to the Consolidated Fund. Details on amounts due to the Consolidated Fund at 31 March 2010 are disclosed at Note 16 to these financial statements.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2010

29. Contingent liabilities

Ofcom has no contingent liabilities at the end of March 2010.

From time to time, Ofcom will be subject to legal challenge and judicial review of decisions made in the normal course of its business as regulator of the communications sector. Legal judgements could give rise to liabilities for legal costs. Provision has been made in these financial statements (see Note 18) for costs which are quantifiable and to the extent that they are probable. 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.

30. Whole of government accounts

At 31 March 2010, Ofcom owed £29.3m (2009: £28.0m) to central government bodies. There are no amounts owing to local authorities, NHS Trusts or public corporations and trading funds.

Section 400 shows £4.3m (2009: £1.2m) owing to central government bodies.

31. Events after the reporting period

There were no reportable events between the reporting date and the date when the accounts were certified. The financial statements do not reflect events after this date.

ANNEX 1: SPECTRUM LICENSING

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.

CATEGORY A

Licences that involve no frequency assignment, site clearance or international co-ordination	Licences issued April 09 - March 10	Licences issued April 08 - March 09	Total on issue as at 31 March 10
Business Radio Light – Simple UK (no base station)	1,049	906	6,034
Fixed Wireless Access (5.8 GHz)	82	60	289
Business Radio Simple Site	552	544	7,295
Business Radio Suppliers Light	66	38	457
Police and Fire	8	1	123
Subtotal for Business Radio products	1,757	1,549	14,198
Radar Level Gauge	0	0	124
CB, Amateur & Maritime	25,154	20,155	174,980
Total for Category A	26,911	21,704	189,302
KPI for Category A (100% in seven days)	92%	90%	-
KPI for Category A (CB, Amateur & Maritime) (100% in ten days)	99%	99%	-

CATEGORY B

Licences that involve frequency assignment, but no site clearance or international co-ordination		Licences issued April 09 - March 10	Licences issued April 08 - March 09	Total on issue as at 31 March 10
Automatic Identification System		24	32	110
Coastal Station Radio (International)		54	30	500
Coastal Station Radio (UK)		58	36	419
Coastal Station Radio (Marina)		37	27	404
Coastal Station Radio (Training School)		40	15	208
Maritime Radio (Suppliers & Demonstration)		6	10	82
Maritime Nav aids and Radar		14	32	116
Differential Global Positioning System		0	0	12
Subtotal for Deregulation & Contracting-Out products		233	182	1,851
Business Radio Technically Assigned		2,658	3,326	29,585
Business Radio Area Assigned		42	3	80
Ground Probing Radar		23	0	127
Scanning Telemetry		2	0	29
Self co-ordinated links		6	4	20
Subtotal for Business Radio products		2,731	3,333	29,841
Total for Category B		2,964	3,515	31,692
KPI for Category B	90% in 21 days	96%	98%	-
	100% in 42 days	98%	100%	-

ANNEX 1: SPECTRUM LICENSING

CATEGORY C

Licences that require frequency assignment, and site clearance and/or international co-ordination		Licences issued April 09 - March 10	Licences issued April 08 - March 09	Total on issue as at 31 March 10
Fixed Links		2,140	4,667	40,442
Satellite (Permanent Earth Station)		21	18	161
Satellite (Transportable Earth Station)		68	62	140
Satellite (Earth Station Network)		18	6	54
Total for Category C		2,247	4,753	40,797
KPI for Category C	90% in 42 days	99%	98%	-
	100% in 60 days	99%	99%	-

TEST AND DEVELOPMENT (T&D) LICENCES

	Licences issued April 09 - March 10	Licences issued April 08 - March 09	Total on issue as at 31 March 10
Non-Operational Development Licence	329	238	284
Non-Operational Temporary Licence	124	100	62
Total for T&D	453	338	346
KPI for T&D (100% in 60 days)	100%	100%	-

MOBILE AND WIRELESS BROADBAND LICENCES

Licences issued through spectrum auction or award processes	Licences issued April 09 - March 10	Licences issued April 08 - March 09	Total on issue as at 31 March 10
2G Cellular Telephones	0	0	4
3G Cellular Telephones	0	0	5
2G Channel Islands and Isle of Man Cellular Telephones	0	0	8
3G Channel Islands and Isle of Man Cellular Telephones	1	0	9
Broadband Wireless Access 3.5GHz, 3.6GHz and 28GHz	0	0	17
Broadband Wireless Access Channel Islands and Isle of Man 3.4GHz, 3.6GHz, 10GHz and 28GHz	0	1	11
Spectrum Access 412-414MHz	0	0	1
Concurrent Spectrum Access 1781-1785MHz	0	0	12
Spectrum Access 1785MHz Northern Ireland	0	0	1
Spectrum Access 10-40GHz	0	0	10
Spectrum Access 1452-1492MHz	0	1	1
Total for Mobile and Wireless Broadband	1	2	79

ANNEX 1: SPECTRUM LICENSING

DIGITAL DIVIDEND SPECTRUM LICENCES

Spectrum freed up for new uses as a result of digital switchover.

Licences issued by award processes	Licences issued April 09 - March 10	Licences issued April 08 - March 09	Total on issue as at 31 March 10
Spectrum Access DDR GI 541-55MHz (Cardiff)	0	1	1
Spectrum Access DDR GI 758-766MHz (Manchester)	0	1	1
Total for Digital Dividend licences	0	2	2

NON-DISCRETIONARY SPECTRUM 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.

Partners' Activity	Licences issued April 09 - March 10	Licences issued April 08 - March 09	Total on issue as at 31 March 10
JFMG issues Licences for Programme-Making & Special Events	3,033	2,821	3,268
KPI for JFMG (100% in 7 days)	100%	100%	-
CAA issues Licences for Aeronautical	16,948	15,394	14,467
KPI for CAA (100% in 7 days)	77%	89%	-
Total	19,981	18,215	17,735

TOTAL NUMBER OF LICENCES – ALL CATEGORIES	52,557	48,529	279,953
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ANNEX 2: SPECTRUM OPERATIONS – SPECTRUM ENGINEERING AND ENFORCEMENT KPIs

As part of the ISO 9001 Quality Management project the Interference service delivery targets have been reviewed and revised. In October 2009 new business processes supported by a new case management system were implemented.

Direct comparisons between statistical data for the periods April 2009-September 2009 and October 2009-March 2010 are problematic due to reclassification of case type, prioritisation and structure.

Three changes have been made:

- Reclassification of stakeholder types and the priority structure in favour of an impact assessment derived priority allocation. See Note 1.
- Implementation of a new case structure to provide an improved focus on customer orientated deliverables. See Notes 2 and 3.
- Achievement of quality of service target for the Diagnostic stage of the Interference Case is the new key performance indicator. For context other case stage measurements are provided.

Statistical data for the financial year 2009/10, in line with the reclassification introduced in October 2009, is given in Table 2.

TABLE 1: MAIN ACTIVITIES

Work Programme Activity/Incident	Period 2009/10 Reporting Year	Period 2008/9 Reporting Year
Interference cases received	4,101	3,164
Baldock: spectrum activities	3,986	3,673
Interference cases closed	4,004	3,219
Enforcement cases opened	1,488	1,170
Radio system compliance inspections completed	219	180
Successful prosecutions for criminal spectrum activity	34	39
Unsuccessful prosecutions for criminal spectrum activity	1	1

ANNEX 2: SPECTRUM OPERATIONS – SPECTRUM ENGINEERING AND ENFORCEMENT KPIs

TABLE 2: KEY PERFORMANCE INDICATORS

Case Area - Interference	Case Stage	New Target (100%)	Quality of Service Target Achieved 2009/10
Case Sub-Area (see note 1)			
Priority 1	Opening Communications	4 hrs	78%
	Diagnostic	20 hrs	67%
	Encouraging and/or Enforcing Compliance	2 working days	100%
	Closing Communications (Closing admin only)	7 working days	92%
Priority 2	Opening Communications	12 hrs	85%
	Diagnostic	24 hrs	78%
	Encouraging and/or Enforcing Compliance	3 working days	50%
	Closing Communications (Closing admin only)	8 working days	76%
Priority 3	Opening Communications	1 working day	55%
	Diagnostic	3 working days	41%
	Encouraging and/or Enforcing Compliance	5 working days	50%
	Closing Communications (Closing admin only)	10 working days	58%
Priority 4	Opening Communications	1 working day	51%
	Diagnostic	5 working days	23%
	Encouraging and/or Enforcing Compliance	10 working days	57%
	Closing Communications (Closing admin only)	15 working days	58%
Priority 5	Opening Communications	2 working days	85%
	Diagnostic	30 working days	77%
	Encouraging and/or Enforcing Compliance	40 working days	88%
	Closing Communications (Closing admin only)	45 working days	81%

NOTE 1 - NEW PRIORITY CLASSIFICATION:

Priority 1: No immediate alternative form of communication is available. Safety of Life is at risk.

Priority 2: No immediate alternative form of communication is available. Safety of Life is not immediately at risk. Efficient Emergency/Public Services are disrupted or jeopardised. Significant numbers of consumers are severely affected.

Priority 3: An alternative form of communication is available to Emergency/Public services. No alternative form of communications is available to Business/Services critical operations. Significant numbers of consumers are affected.

Priority 4: Alternative forms of communications are available. Business/Services operations are disrupted. Individual consumers are severely affected.

Priority 5: Individual consumers affected.

Priority 6: For information only or cases covered by other Targets e.g. International ITU Regulations.

NOTE 2 - NEW CASE STRUCTURE STAGES:

- Open Communications; Time from customer report to failing triage or assigning case to a Field Engineer.
- Diagnostic: Time from assigning case to Field Engineer to identifying the source of interference or terminating the case as the reported problem is due to defective affected service.
- Encouraging Compliance: resolution of the interference by encouragement (light touch regulation) and/or;
- Enforcing Compliance: resolution of the interference by enforcement.
- Closing Communications: this is case closure administration e.g. sending formal closure correspondence and invoice if applicable.

NOTE 3 - PERFORMANCE AT ENCOURAGING COMPLIANCE AND ENFORCING COMPLIANCE STAGE:

- Performance at these stages is outside Ofcom's control and is dependent on legal proceedings.



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Office of Communications

Riverside House
2a Southwark Bridge Road
London SE1 9HA

Switchboard +44 (0)300 123 3000 or
+44 (0)20 7981 3000

Facsimile +44 (0)20 7981 3333

Textphone +44 (0)20 7981 3043

www.ofcom.org.uk

Ofcom Advisory Team

Telephone +44 (0)300 123 3333 or
+44 (0)20 7981 3040



Awarded to Ofcom's
London headquarters



SCOTLAND

Sutherland House
149 St Vincent Street
Glasgow G2 5NW
T 0141 229 7400
F 0141 229 7433

WALES

2 Caspian Point
Caspian Way
Cardiff CF10 4DQ
T 029 2046 7200
F 029 2046 7233

NORTHERN IRELAND

Landmark House
5 Cromac Quay
The Gasworks
Ormeau Road
Belfast BT7 2JD
T 028 9041 7500
F 028 9041 7533



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