

The Office of Communications Annual Report and Accounts

For the period 1 April 2010 to 31 March 2011



THE OFFICE OF COMMUNICATIONS
ANNUAL REPORT AND ACCOUNTS
FOR THE PERIOD 1 APRIL 2010 TO 31 MARCH 2011

Presented to Parliament pursuant to
Paragraphs 11 and 12 of Schedule 1 of
the Office of Communications Act 2002.

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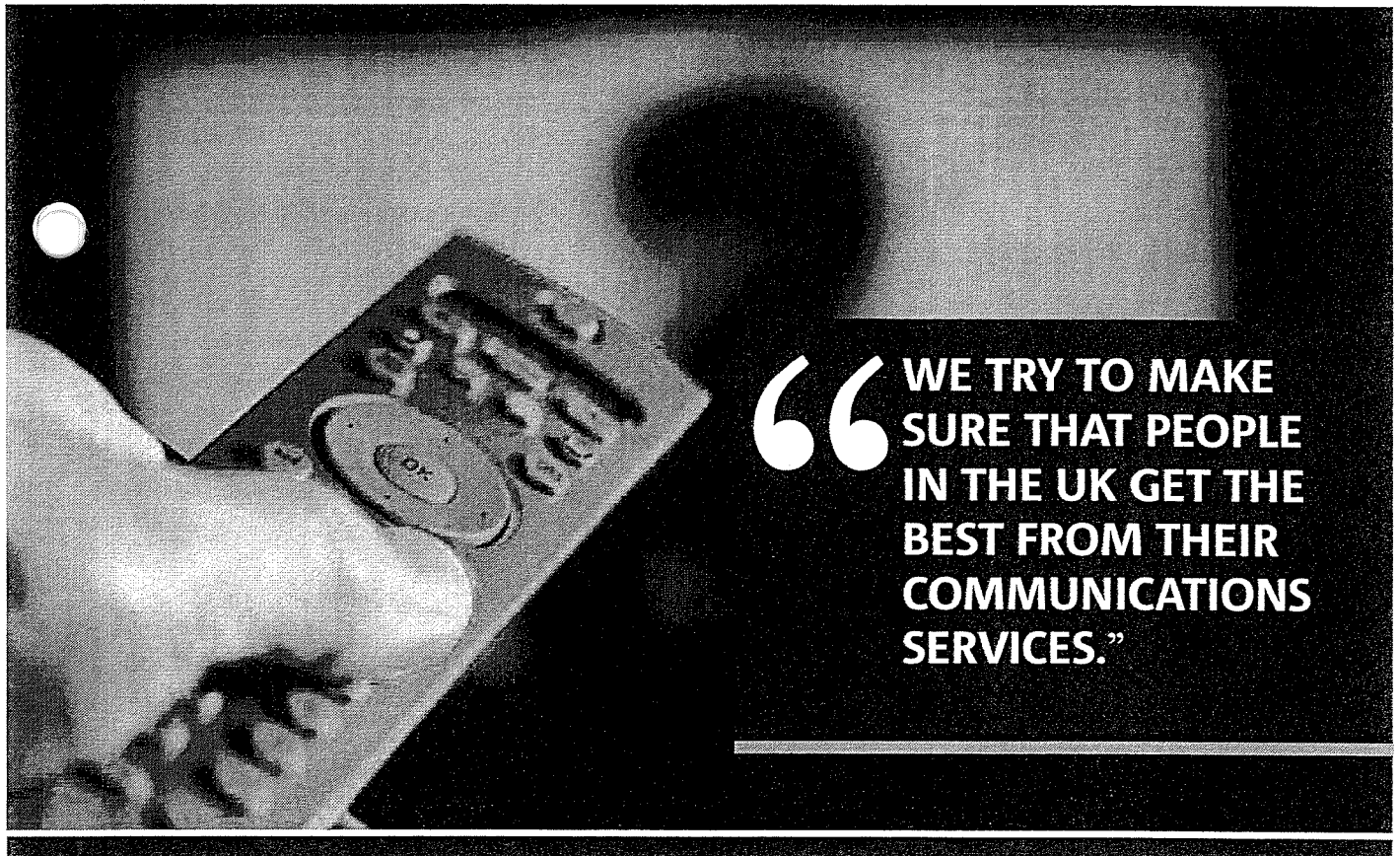
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“ WE TRY TO MAKE SURE THAT PEOPLE IN THE UK GET THE BEST FROM THEIR COMMUNICATIONS SERVICES.”

WHO WE ARE AND WHAT WE DO

The Office of Communications (Ofcom) is the communications regulator.

We regulate the TV and radio sectors, fixed-line telecoms and mobiles, and the airwaves over which wireless devices operate.

We try to make sure that people in the UK get the best from their communications services and are protected from scams and sharp practices, while ensuring that competition can thrive.

Ofcom operates under a number of Acts of Parliament and regulations, including the Communications Act 2003. This detailed Act of Parliament, together with other applicable legislation and regulations, spells out what Ofcom should do. More recent legislation includes the Digital Economy Act 2010.

The Communications Act 2003 says that Ofcom's principal duties should be to further the interests of citizens and of consumers. Meeting these two duties is at the heart of everything we do.

Accountable to Parliament, we are involved in advising on and setting some of the more technical aspects of regulation, as well as on implementing and enforcing communications law, competition and consumer protection laws.

Ofcom is funded by fees from industry for regulating broadcasting and communications networks, and grant-in-aid from the Government.

WHAT WE DO

Our main legal duties are to ensure that:

- the UK has a wide range of electronic communications services, including high-speed services such as broadband;
- a wide range of high-quality television and radio programmes are provided, appealing to a range of tastes and interests;
- television and radio services are provided by a range of different organisations;
- people who watch television and listen to the radio are protected from harmful or offensive material. We handle complaints about television and radio broadcasting and assess each complaint against the Broadcasting Code or other relevant codes or licence conditions;

- people are protected from being treated unfairly in television and radio programmes, and from having their privacy invaded; and
- the radio spectrum (the airwaves used by everyone from taxi firms and boat owners, to mobile-phone companies and broadcasters) is used in the most effective way.

WHAT WE DO NOT DO

Ofcom does not have the power to resolve individual complaints about telecommunications services, but we provide advice to complainants and refer them to the Alternative Dispute Resolution schemes that we have approved.



CHAIRMAN'S MESSAGE

COLETTE BOWE

This has been a year when Ofcom has had to rise to a very serious challenge – the reshaping of the organisation in the light of pressures on the public finances.

The past year has been one of transition for Ofcom. The organisation has dealt head-on with the challenge of finding ways to work more efficiently while taking on new responsibilities.

The Board has worked closely with the senior executive team on this and I can report that the challenge is being met. In advance of the publication of the Government's Spending Review, we undertook a programme of identifying savings and finding new ways of working more efficiently. In October, we announced plans to make savings of just over 28 per cent over the four years beginning from April 2011. Given the scale of the reduction in our budget, we must also cut back our activities in a number of areas. As a result of this work, we will be able to reduce our budget as required. The Chief Executive goes into more detail on this in his report on page 9. As I briefly note below, we are, however, required to take on new and additional responsibilities. Our challenge now, which I am determined that Ofcom meets, is to continue to act as vigorously as we always have on behalf of citizens and consumers.

In the past year, we have embarked on a new examination of consumer switching in the telecoms sector, to determine the extent to which the current arrangements promote good consumer and competition outcomes. We want to ensure that consumers' experience of switching is easy and hassle-free, with no undue barriers, and this is work we will take forward into the next year, working with industry and consumer groups.

We also published consumer complaints made to us about telecoms providers for the first time – something that we plan to do regularly from now on. Publishing this information is important in helping consumers make informed choices when choosing a provider and will act as an incentive for providers to improve their customer service.

The past year saw new duties placed upon us as a result of the Digital Economy Act, and over the next year what we do is likely to change again. The Public Bodies Bill will, if passed, pave the way for modest but important deregulation in the way we work, including our governance

structure. We have also reviewed, reformed and streamlined the role, scope and functions of our advisory committees, allowing us to reduce costs while retaining the necessary focus on people in Scotland, Wales and Northern Ireland and the needs of older and disabled people. Ofcom's decisions will continue to be strengthened by the dedication and forthright counsel which the members of these committees provide to the Board.

Another area of change for us will come from the Postal Services Act, which integrates the functions of Postcomm into those of Ofcom. In anticipation, the Government has appointed Ofcom Board Member Millie Banerjee as the Chairman of Postcomm, with fellow Ofcom Board Members Stuart McIntosh, Norman Blackwell and Mike McTighe becoming Postcomm Commissioners. Ofcom colleagues are working closely with counterparts from Postcomm to ensure a well-ordered integration. Royal Assent of the Postal Services Bill was received on 13 June 2011.

“ OUR CHALLENGE NOW IS TO CONTINUE TO ACT AS VIGOROUSLY AS WE ALWAYS HAVE ON BEHALF OF CITIZENS AND CONSUMERS.”

Changes in European telecoms law will also change the way we work, giving Ofcom new responsibilities in areas such as net neutrality; enabling us to require greater transparency in the pricing of telephone number ranges; increasing our ability to act on behalf of consumers with disabilities and enhancing our means to enforce the rules.

Ofcom is held to account by Parliament in many more ways than just the laying of this annual report. In the past year, Ofcom colleagues have given evidence to Parliamentary committee inquiries ranging from television advertising to the development of broadband in Wales.

Ofcom has said goodbye to a number of colleagues this year, many as a direct consequence of

the reduction in our budget. It has not been an easy process and I want to put on record my gratitude, and that of the Board, for the work these colleagues have done on behalf of citizens and consumers. In addition, there have also been departures and arrivals on the Board itself. Peter Phillips left Ofcom to take up a new position at Cambridge University Press. At the same time, we welcomed to the Board Jill Ainscough, Ofcom's Chief Operating Officer. In the next few months we will also say goodbye to two colleagues who have contributed hugely to Ofcom's direction over the past few years. Millie Banerjee, who first joined the board in 2002, departs in June. Millie has chaired Ofcom's Remuneration Committee for several years and has in addition made a strong contribution right

across all our work since Ofcom's earliest days. Ofcom's Deputy Chairman Philip Graf, who is also the Chairman of the Content Board, comes to the end of his second term in December. I would like to record my personal thanks, and those of the Board, to these two outstanding colleagues. We wish them well and they go with our heartfelt thanks.

Colette Bowe
Chairman



CHIEF EXECUTIVE'S REPORT

ED RICHARDS

Ofcom secured a wide range of positive outcomes for consumers and citizens in 2010/11. But there is still more for us to do.

At the beginning of this Annual Report is a short statement. It sets out our responsibilities and defines our legal duties, requiring us to further the interests of citizens and consumers.

It's a clear definition of what underpins all our work and everything we do at Ofcom. But what it doesn't do is explain how our work actually benefits people.

Every year since we were set up we have secured significant and positive measurable outcomes for people. These are things that we see on our screens, listen to over the airwaves or benefit from through lower prices or better services. And this year has been no exception.

WHAT OUR WORK HAS ACHIEVED

During the year in review, consumers enjoyed a number of developments in the market that resulted from Ofcom's work.

■ One of the year's more talked-about outcomes was in pay TV. From the beginning of the football season viewers were able to watch top-flight football on a wider range of TV platforms and benefit from new TV packages, as a result of our intervention.

■ The year saw high-definition services on digital terrestrial TV come of age. Sales of Freeview HD TVs and boxes reached 1.2 million at the end of 2010, allowing consumers to watch everything from *Emmerdale* to *The Human Planet* in crisp HD quality. The catalyst for this growth was the technical work we conducted two years ago to reorganise how digital terrestrial TV is broadcast in order to free up capacity for bandwidth-hungry HD signals. Consumers can now enjoy HD channels on a variety of free-to-air services, including Freeview, Freesat and Sky.

■ In broadband, consumers are today receiving increasingly faster speeds, with the average actual speed standing at 6.2 Mbit/s in December 2010, up from 5.2 Mbit/s in May 2010, according to Ofcom research. The results of this research underline the importance of consumers receiving clear, accurate

and consistent information on broadband speeds, and in 2010 we introduced a strengthened Voluntary Code of Practice on Broadband Speeds with the co-operation and agreement of internet service providers.

■ The introduction of fresh competition in the provision of super-fast broadband services, with four communications providers using or testing BT's fibre lines by the end of March 2011, helped to drive up speeds. This was enabled by our decision in 2010 to require BT to open its network and infrastructure to competition.

■ The prices UK consumers pay for communications services are falling overall and compare reasonably favourably to prices in other countries. Our research found that UK mobile prices fell by eight per cent between July 2009 and July 2010 and are lower than in the five other countries we analysed (France, Germany, Italy, Spain and the US). Fixed-line voice prices are also lower than in other countries, while the price of a basic voice and broadband bundle fell by 12 per cent – and is lower than

¹ This research was published in our International Communications Market Report, December 2010, Section B1.

in all the comparator countries except Germany³. Some providers also announced that they would offer talk packages that included calls to mobiles. However, we did note that the prices for telephone line rental from some major telecoms providers increased during the year and we will continue to monitor this trend.

- We opened six investigations and enforcement programmes in the year to protect consumers from issues such as silent calls, mis-selling and misleading marketing of international calling cards.
- We also committed to publish information about the most complained-about major telecoms providers, based on all consumer telecoms complaints received by Ofcom. The first of these regular reports was published in April 2011.
- We also oversaw the successful introduction of product placement on TV and radio during the year. On 28 February, the first day product placement was permitted on UK TV, ITV's *This Morning* carried a paid-for product.

But there is much more to do, and favourable outcomes for consumers can materialise over different time horizons. Section B of this report, starting on page 12, covers in more detail some of the outcomes of Ofcom's work.

REFOCUSING AND RISING TO THE SPENDING CHALLENGE

While consumers are enjoying new benefits in the communications sector, the country as a whole is clearly facing many challenges resulting from the recession and the cuts in public spending.

Therefore it was only right that in 2010/11 Ofcom played its part in reducing spending. In early 2010 – a number of months ahead of the Government's spending review – we began a programme of identifying significant expenditure savings in response to the challenge facing the public sector more generally.

Over four years to 2014/15 Ofcom will reduce its total budget by 28.2 per cent in real terms. The majority of the cuts, a 22.5 per cent real terms reduction of £26.7m, will be made in 2011/12 in a drive to reduce uncertainty and refocus the organisation quickly. This has been made possible by starting our internal spending review early. Ofcom's total budget for 2011/12 will therefore be £115.8m. In addition to this, and because we started our expenditure review at the start of 2010, we have been able to make a number of efficiency savings within the financial year ending 31 March 2011. This has contributed to a £17.2m saving against Ofcom's budget for 2010/11.

Our reduced cost base, combined with our savings against our 2010/11 budget, benefits stakeholders in the form of reduced fees. Specifically, TV broadcasters will see a 42.3 per cent real-terms decrease in charges; radio broadcasters a decrease of 36.2 per cent; and network and service operators will see a decrease of 32.5 per cent.

The Operating and Financial Review of this report, starting on page 43, covers this in more detail.

The savings across the organisation were made through a combination of efficiencies, a reduction in staff costs, streamlining project management and governance and ceasing some activities altogether. It has resulted in some difficult decisions: around 170 roles have been lost, with colleagues leaving through redundancy, and a new internal structure put in place. The Chairman discusses some of these changes in her report on page 6.

The result of the changes is a refocused organisation, with five clear strategic purposes. They are:

1. to promote effective and sustainable competition;
2. to promote the efficient use of public assets;
3. to help communications markets work for consumers;
4. to provide assurances to audiences on standards; and

“ THE PRICES UK CONSUMERS PAY FOR COMMUNICATIONS SERVICES ARE FALLING OVERALL AND COMPARE FAVOURABLY TO PRICES IN OTHER COUNTRIES. ”

5. to contribute and implement public policy defined by Parliament.

Our Annual Plan for 2011/12, published in April 2011, sets out our priorities in more detail.

FUTURE OUTCOMES OF OUR 2010/11 WORK

At the start of this report I outlined just a few examples of measurable outcomes of our work. In some cases – such as our decisions on the regulation of the pay TV sector – the market responds swiftly and delivers the benefits to consumers in a matter of months. For much of Ofcom's work, however, it will take longer for the benefits to flow through to consumers. Here are some of the future outcomes we expect from the work we undertook or started in 2010/11:

- Cheaper call charges when phoning a mobile from a landline and greater choice in mobile price packages, resulting from our decision to lower mobile termination rates over four years;
- The future launch of enhanced 4G mobile services with faster internet speeds, following Ofcom's planned auction of spectrum at 800 MHz and 2.6 GHz;
- Simpler and reduced charges for calling 08 and 09 telephone numbers, including free calls to 0800 numbers from mobiles, resulting from our proposals around non-geographic telephone numbers (taking into account the implementation of the changes to the EU communications framework);
- New revenues for TV and radio broadcasters, after the introduction of product placement, with restrictions on the type of products and programmes;
- Increasingly faster broadband speeds with greater choice of provider, as a result of our requirement on BT to offer access to its fibre network and infrastructure;
- A reduction in silent calls by individual companies, following new rules to prevent repeat silent calls and new powers to fine companies up to a maximum of £2m;
- Better value broadband services in rural areas, resulting from a proposed reduction in BT's wholesale charges in parts of the country where it is the sole provider;
- More community radio stations on air, as a result of a new round of licensing; and
- Maintained standards on TV and radio, as a result of the enforcement of Ofcom's revised Broadcasting Code.

In some areas we will be doing fewer things. Through the Public Bodies Bill the Government has proposed to reduce the frequency of media ownership and public service broadcasting reviews. In other areas we have been asked to take on additional responsibilities; for example, implementing the provisions in the Digital Economy Act aimed at addressing copyright infringement, and the proposed regulation of postal services through the Postal Services Bill.

In 2010/11 our role in providing advice to the Secretary of State on the public interest concerns arising from the proposed takeover of BSkyB by News Corporation was also widely reported. One outcome of this work was a proposal that Government considers undertaking a wider review of the statutory framework to ensure plurality in the public interest. The current system does not provide for intervention to be considered where plurality concerns arise in the absence of a corporate transaction involving media enterprises.

Ed Richards
Chief Executive



ANNUAL REPORT OF THE CONTENT BOARD

PHILIP GRAF

The Content Board is a vital part of Ofcom's work across TV, radio and digital media. It promotes standards and quality in a fast-changing world.

How audiences consume content, and the assurances they can expect when doing so, remains a vital part of Ofcom's overall work. The Content Board's role in this is pivotal, and over the past year we have taken steps to refresh content regulation for a much more diverse age.

The Board's work is extensive and varied. During 2010/11 we oversaw the regulation of public service broadcasters, including in relation to quotas for independent television production, regional production and original EU/UK production. More broadly, we continued to consider the wider implications of changing consumer trends and technological change in relation to the existing model of content regulation.

On specific issues, a very public milestone in the past year was the introduction of new rules on paid-for references for products and services, permitting for the first time on UK television the use of product placement. These new liberalised rules make product placement transparent, but restrict products and services such as tobacco and gambling.

We have worked with a range of co- and self-regulators in the sector and we continue to look at the wider role and benefit of content co-regulation. For the first time this year BCAP, the Committee of Advertising Practice, issued a single consolidated Code, which the Content Board reviewed and approved, offering audiences important protections across radio and TV advertising. ATVOD, the Authority for Television On Demand, was established very late in the last reporting year with the support of both industry and the Government and is continuing to develop.

In November, and following serious repeated breaches of the Broadcasting Code, Ofcom revoked four TV broadcast licences used for channels promoting premium-rate adult chatlines. Although an unusual step for Ofcom, the licensees' persistent failure to comply with our rules to protect children from inappropriate material and viewers from harmful and offensive material rendered them no longer fit and proper. I hope that it also serves as notice that Ofcom will normally seek to guide broadcasters towards

compliance, but we can and will exercise the most serious sanction available to us when needed.

Finally, it was a year of change in senior personnel. Stewart Purvis and Chris Banatvala both left Ofcom, and the Content Board, with our best wishes and thanks for their service. Christopher Woolard joined the Content Board and became Group Director for Ofcom's new Content, International and Regulatory Development Group.

Philip Graf
Chairman, Content Board

SECTION B – BUSINESS, OPERATING AND FINANCIAL REVIEW

AN OVERVIEW OF THE MARKETS WE REGULATE

The communications sector plays an important role in the lives of UK consumers and citizens.

Nearly half of people’s waking hours are spent using media and communications, and consumers place an enduring value on communications services relative to other activities.

Consumer satisfaction with communications services was 90 per cent in 2010, while

87 per cent of consumers believe that at least one communications provider was offering better deals in 2010 compared to 2009.

Consumers are spending less on their communications services but are doing more with them. They are now sending four times as many texts each day than in 2004, talking for over six hours each month on their mobile phones and spending over four hours each day watching TV. Access to most key communications services continued to grow in 2010.

TV AND RADIO

TV remains the most widely used form of media consumption in the evening and the activity that most adults would miss the most. Viewers watched an average of 4 hours and 2 minutes of TV per day in 2010, up from 3 hours and 45 minutes in 2009³, and they can access an extensive range of content on a broad range of platforms. Over 93 per cent of homes in the UK already access digital TV⁴, and the UK’s move to digital-only

broadcasting continues apace, with digital switchover on track to be completed at the end of 2012.

In 2010, almost 31 per cent of adults with home internet access watched online catch-up TV services like the BBC’s iPlayer, up from 23 per cent a year earlier. Take-up of high definition television (HDTV) is also growing rapidly. Around 5.1 million UK homes had access to HDTV channels across satellite, cable and digital terrestrial television at Q2 2010, up from around 1.9 million at the end of Q1 2009.

The number of radio listeners reached a new high in 2010, with 90.5 per cent of adults tuning in at least once a week, up from 89.6 per cent of the UK population at the end of 2009⁵. Listening to radio via a digital platform increased by 22.1 per cent in terms of weekly reach between the end of 2009 and 2010, with 20.9 million people now tuning in to radio via a digitally

According to our Communications Market Report², published in August 2010, average monthly household spend on communications services fell slightly in 2009, by £2.21 to £91.24, accounting for 4.4 per cent of total household expenditure, down from 4.6 per cent in 2008. Half of all UK households now opt to save money by buying two or more services such as broadband, fixed and mobile phone services and pay TV (known as a bundle) from a single provider, compared to 29 per cent in 2005.

² Ofcom’s Communications Market Report is published annually and provides an overview of key metrics and trends in the UK communications sectors.

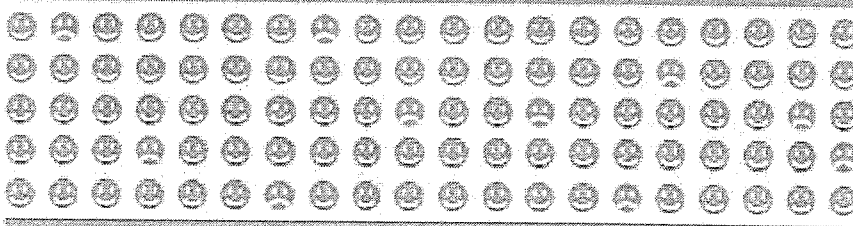
³ BARB data in 2009 and 2010 are based on different panels so comparisons should be made with caution.

⁴ Digital TV Update, Q4 2010.

⁵ RAJAR.

⁶ A new methodology was introduced for the December 2010 broadband speeds research.

CONSUMER SATISFACTION WITH COMMUNICATION SERVICES WAS 90% IN 2010



enabled receiver each week (up from 17.1 million year on year). Community radio is thriving, with around 180 stations now serving audiences across the UK.

INTERNET AND PHONE SERVICES

The UK has one of the most competitive telecoms markets in Europe for both fixed line and mobile services.

Consumers are now more likely to own a mobile phone than to have a fixedline (landline) at home, and 91 per cent of people now own a mobile phone, compared to 80 per cent in 2006. The number of fixed lines is gradually decreasing, falling by 800,000 to 33.3 million between 2009 and 2010, as increasing numbers of households and businesses have become mobile-only. The price of making mobile calls has fallen dramatically in recent years, with the average cost per minute decreasing from 15.1p in 2004 to 8.8p in 2009. Over the same period the average cost per minute of a fixed-voice call has increased slightly: from 6.6p in 2004 to 7.3p in 2009.

Prices for communications services compare favourably to those in other countries. Our research found that UK mobile prices fell by eight per cent between July 2009 and July 2010 and are lower than in the five other countries we analysed (France, Germany, Italy, Spain and the US) in our International Communications Market Report, published in December 2010. Our research also found that the UK's fixed-line voice prices are also lower than in other countries, while the price of a basic voice and broadband bundle fell by 12 per cent – and is lower than in all the comparator countries apart from Germany. However, we did note that the prices for telephone line rental from some major telecoms providers increased during the year.

By the end of June 2010, over 85 per cent of UK premises were connected to an unbundled exchange offering a choice of broadband providers, giving households and businesses access to competing services. This is more than double the proportion at the end of 2005. The number of unbundled broadband connections had reached 7.5 million by the end of 2010, up from just 123,000 in September 2005 when Ofcom first put in place regulations that led to BT opening up its network more widely to other service providers.

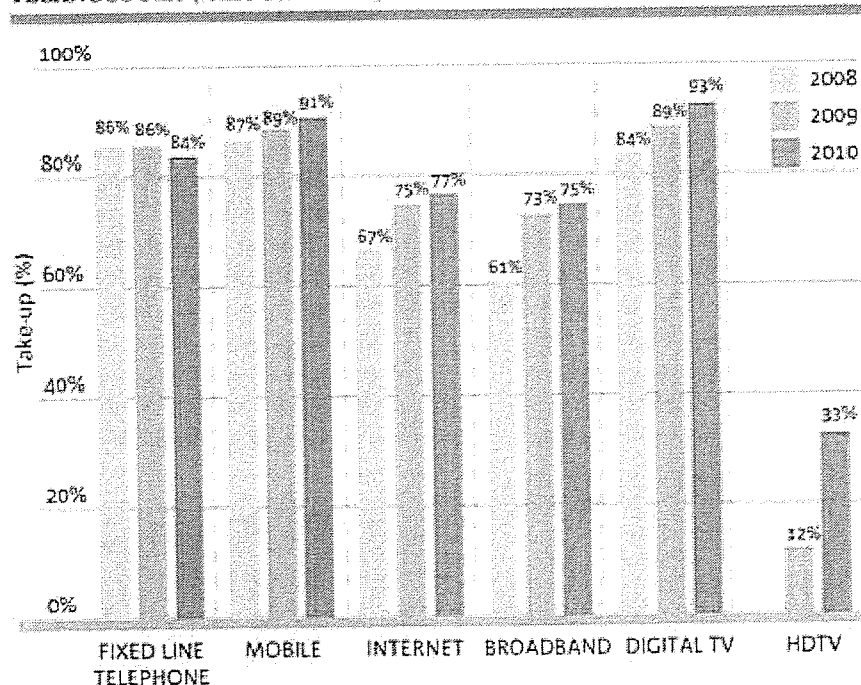
The proportion of people with a broadband connection continues to grow: 75 per cent of households were accessing the internet via broadband by the end of 2010, compared to 61 per cent two years earlier (see Figure 1).

Ofcom research on broadband speeds (published in March 2011) showed that average actual fixed-line broadband speeds increased from

4.1 Mbit/s in April 2009 to 6.2 Mbit/s in December 2010⁶ as higher-speed broadband services become available via the upgrade of DSL and cable networks. Nearly half of the population is now in an area served by super-fast broadband provided via Virgin Media's cable network, while at the end of 2010 around 15 per cent of UK households were passed by BT's fibre-to-the-cabinet service offering speeds of 'up to' 40 Mbit/s (with 40 per cent of UK households set to have access to BT's fibre-to-the-cabinet or fibre-to-the-premises services by the end of 2012, and 66 per cent by the end of 2015).

Mobile networks are also playing an important role in increasing broadband adoption, with one in three mobile phone users using their handset to access the internet and one in six households using a mobile 'dongle' or datacard to access the internet on a PC.

FIGURE 1. ACCESS TO A SELECTION OF COMMUNICATIONS TECHNOLOGIES (% HOUSEHOLDS)



Source: Ofcom Technology Tracker

Note: all figures at year end; mobile take-up denotes personal use; HDTV data not available in 2008

PERFORMANCE AGAINST OUR ANNUAL PLAN PRIORITIES

We aim to deliver against the objectives set in our annual plan priorities. This section explains how we performed against these priorities and provides detail on what we said we would do, what actions we took and what the outcomes for consumers were.

WHAT WE SAID WE'D DO

Implement regulation to support effective competition and efficient investment in super-fast broadband.

Super-fast broadband is now a reality in the UK, bringing with it the potential to change the way in which we live and work. Virgin Media has offered speeds of 'up to' 50 Mbit/s since 2008 to customers over its cable network, which covers roughly half of the UK, and recently started rolling out speeds of up to 100 Mbit/s access. BT launched its Infinity fibre product last year, offering broadband speeds of 'up to' 40 Mbit/s, and aims to cover

two-thirds of the country by 2015. Our latest broadband speeds research, published in March 2011, found that the speeds of these cable and fibre services were closer to their advertised speeds than those of DSL broadband⁷.

Using super-fast broadband services, different members of a household can access a variety of high-bandwidth applications simultaneously. This could include watching high-definition television, playing interactive games and streaming or downloading music and films over the internet.

Businesses and consumers 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.

WHAT WE DID

In 2010 we carried out a review of the wholesale local access market for broadband. Following the review, we put in place new regulations i) allowing BT's competitors to provide broadband services over BT's fibre access networks, and ii) requiring BT to offer access to its network of underground ducts and telegraph poles. The first of these regulations will allow companies to offer super-fast broadband services to consumers, in competition with BT. The second of these regulations will allow BT's competitors to roll out super-fast broadband to areas where BT does not plan to deploy its fibre network and to target specific areas earlier than BT's roll-out. We also continued to publish our broadband speeds research, which helps consumers make informed decisions when choosing a broadband supplier.

⁷ <http://media.ofcom.org.uk/2011/03/02/average-broadband-speed-is-still-less-than-half-advertised-speed>

⁸ <http://www.culture.gov.uk/images/publications/10-1320-britains-superfast-broadband-future.pdf>

OUTCOME

At the end of May 2011 there were nine communications providers using or testing BT's fibre lines to deliver super-fast broadband services to customers in various parts of the UK.

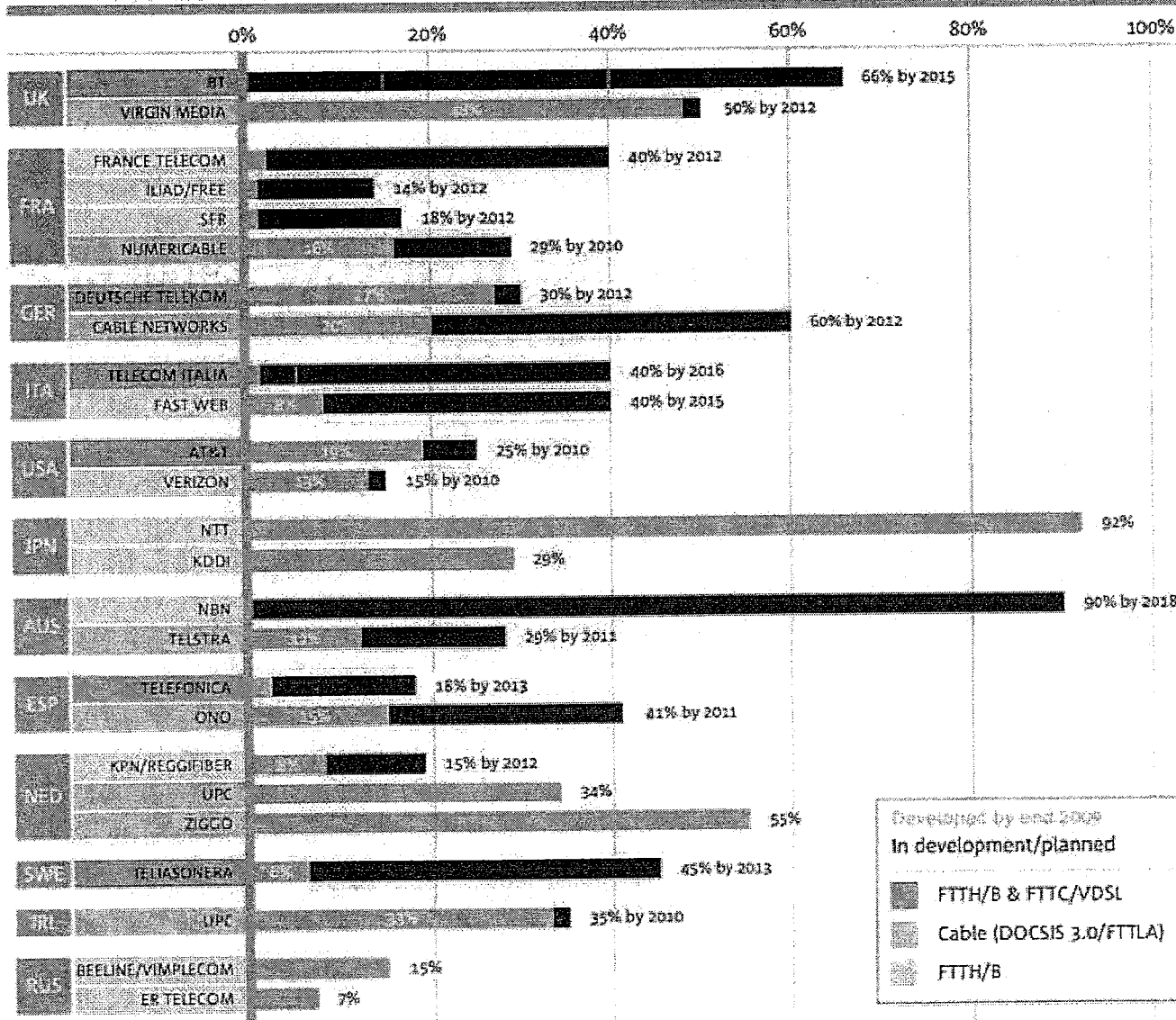
BT published draft terms and conditions for providing access to its network of ducts and poles in January 2011 and is currently trialling these products with customers. Commercial

launch of these products is scheduled for summer 2011. In April 2011, equipment manufacturer Fujitsu announced plans to build a FTTH super-fast broadband network in remote parts of the UK, which would cover five million homes. Virgin Media and TalkTalk said that they would use this network to offer high-speed broadband to consumers.

In 2010, the Government announced an £830m fund to help industry roll out broadband. This could

result in around 90 per cent of the population having access to super-fast broadband. The Government's goal is for the UK to have the best super-fast broadband in Europe by 2015⁸. Over the next few years we expect the deployment and take-up of super-fast broadband to increase significantly in the UK and a competitive retail market for these services to emerge. The UK's fibre roll-out plans also compare favourably to some international markets (see Figure 2).

FIGURE 2. FIBRE ROLL-OUT PLANS OF KEY INTERNATIONAL MARKETS (AS AT DECEMBER 2010)



Source: Ofcom International Communications Market, December 2010.
 Note: chart does not incorporate coverage from the UK Government's rural broadband fund.

WHAT WE SAID WE'D DO

Ensure fair and effective competition in pay TV.

In March 2010, we put in place licence conditions requiring that Sky Sports 1 and 2 be offered to competing retailers on platforms other than Sky's, at prices set by Ofcom, increasing choice for consumers. Sky appealed the decision, asking the Competition Appeal Tribunal (CAT) to review our findings and suspend the requirement to supply the channels while the appeal was ongoing.

The CAT ruled that the new licence conditions should stay in place for certain retailers during the appeal but that the difference between Sky's rate card prices and Ofcom's regulated prices should be paid into an escrow holding account. These funds will be paid to Sky or the other retailers depending on the outcome of the appeal. In addition to Sky, some of the other parties affected by the decision have appealed and the case is due to be heard in the summer of 2011.

WHAT WE DID

Our decision, and the interim position of the CAT, ensured that wider wholesale access to the channels was in place for the start of the 2010/11 Premier League football season in August. The pay TV retailers Virgin Media, BT Vision and Top Up TV were able to retail the service to viewers based on the new regulated wholesale price. We also resolved a number of complaints about specific terms on which these other retailers should have access to the content.

We also consulted on a proposed decision to refer two closely-related movie markets to the Competition Commission, concerning the sale and distribution of subscription premium pay TV movies. First-run Hollywood movies are particularly important to competition in the pay TV sector. This content is a key factor for many consumers when signing up to a pay TV service, and we are concerned that the way in which these films are sold and distributed has created

a situation in which Sky has the incentive and ability to distort competition. The end result for consumers is less choice, less innovation and higher prices.

Following consultation, we asked the Competition Commission to investigate our concerns regarding the sale and distribution of subscription premium pay TV movies, as it is better placed to address these concerns fully.

OUTCOME

We defended the immediate implementation of our remedy at the Competition Appeal Tribunal. As a result, Sky Sports 1 and 2 are now available from a range of pay TV retailers. Importantly, viewers can buy access to premium sports coverage on these channels directly via their existing TV aerials rather than exclusively through satellite or cable services, improving choice and promoting innovation.

Some of the companies that have agreements with Sky for the provision of premium channels have published figures on take-up. BT Vision, which previously did not retail Sky Sports 1 or 2, said that over 50,000 of its 505,000 customers were subscribing to Sky Sports at the end of September 2010. The two channels began broadcasting to BT Vision customers in August 2010. Virgin Media said that during the three months ending 30 September 2010, it added over 100,000 Sky premium subscribers to reach a total of 725,000. At the end of 2010, 53 per cent of UK homes subscribed to pay TV, up by three per cent year on year.



WHAT WE DID

Prepare plans for the release of spectrum for mobile broadband.

Spectrum, the airwaves used for all wireless services including TV and radio broadcasting and mobile phone services, is a finite and extremely valuable resource. Countries across Europe are clearing some of this spectrum to make way for new services like mobile broadband. The Government directed Ofcom to hold an auction of spectrum in the 800 MHz and 2.6 GHz bands to be used for new mobile services, including mobile broadband. Citizens and consumers in the UK stand to benefit significantly from this, with the launch of new services in this high-value spectrum.

WHAT WE DID

We published a consultation in March 2011 setting out our assessment of likely future competition in the mobile market and our proposals for the spectrum auction, including details of how we plan to ensure that competition continues to work effectively for UK consumers.

We are aiming to publish a statement on future competition and details of the auction, together with draft auction regulations, in autumn 2011, and to have final auction regulations in place around the end of 2011. This will enable us to conduct the auction and to offer new licences to the winning bidders in the first half of 2012. We



recognise that this is an ambitious timetable but we will do our best to meet it because of the significance of this spectrum, both in terms of the UK economy and of the potential benefits to consumers and citizens.

The direction from the Government also required us to update some of the rules on how spectrum is used for mobile services. We therefore revised mobile phone operators' 2G licences, which enable consumers to make phone calls and send text messages, to permit operators to provide 3G services, such as mobile internet browsing. Use of these airwaves also benefits consumers because it enables operators to increase mobile broadband speeds, improve in-building coverage and widen mobile broadband coverage in rural areas.

OUTCOME

Releasing the spectrum is expected to provide consumers with access to so-called 4G mobile technology, which is set to deliver significantly faster mobile broadband services – approaching today's ADSL home broadband speeds. We have also proposed to significantly widen the coverage of mobile broadband to 95 per cent of the UK population.

In March 2011, mobile operator O2 said it was reusing its 2G spectrum (at 900 MHz) to offer 3G mobile services in London, following our January decision to relax the rules on spectrum use. O2 said that it expected the move to deliver a 50 per cent increase in capacity on its 3G network in London.

“RELEASING SPECTRUM IS EXPECTED TO PROVIDE CONSUMERS WITH ACCESS TO 4G MOBILE TECHNOLOGY.”



WHAT WE SAID WE'D DO

Make progress on mobile phone not-spots.



Around 97 per cent of the UK population and 91 per cent of the UK's land mass has mobile coverage that enables voice and text messages to be sent. However, so-called 'not-spots' – areas where there is no mobile coverage – remain, particularly in rural areas. Coverage is generally lower in Scotland, Wales and Northern Ireland than in England.

WHAT WE DID

In November 2010, we published initial research into mobile not-spots, identifying different types of mobile coverage issues, looking at the reasons they exist, their impact on consumers and ongoing market developments to address these issues. We also set out our next steps to address these issues and published a consumer guide containing practical steps to help phone users maximise their mobile coverage.

OUTCOME

Our Annual Plan for 2011/12 explained that we would continue to promote investment and consider other ways of addressing mobile phone not-spots. **Outcomes from Ofcom's mobile coverage work are likely to materialise over a longer period as they will depend on actions taken by mobile operators, following commercially or publicly-incentivised investment.** Ofcom data shows that in 2010, 97 per cent of mobile phone users had access to at least one 2G network while 87 per cent had access to at least one 3G network.

On fixed broadband not-spots, we continue to provide technical advice to the Government, which has said that its aim is for super-fast broadband to reach 90 per cent of the UK population.

WHAT WE SAID WE'D DO

Update content regulation to meet the changing needs of audiences.

Ofcom's Broadcasting Code sets out the rules under which broadcasters must abide, by setting standards for the content of television and radio programmes. These rules cover areas including the protection of children, harm and offence, crime, religion, impartiality and accuracy, sponsorship and product placement, fairness and privacy in programmes.

In February 2011, a new version of the Broadcasting Code came into force, including new rules to allow commercial broadcasters to include paid-for references to products and services in some TV and radio programmes.

TELEVISION

WHAT WE DID

Product placement was permitted in UK-produced TV programmes for the first time from 28 February, following changes to European and UK legislation. This has made it possible for commercial broadcasters to access new sources of revenue while ensuring protection for audiences. We consulted on and introduced new Broadcasting Code rules to:

- restrict the types of products that can be placed;
- restrict the types of programmes in which products can be placed;
- limit the way in which products can be seen and referred to in programmes; and
- require that broadcasters must make audiences aware when UK-produced television programmes contain product placement, by

transmitting a universal product placement logo (shown below) on programmes made by or for them which contain product placement.

Ofcom worked with broadcasters to develop a logo to be displayed at the beginning and end of programmes containing product placement. We also issued specific requirements that broadcasters must transmit audience awareness campaigns or messages before they start airing programmes under our new rules.

PRODUCT PLACEMENT LOGO



OUTCOME

The first instance of product placement in a UK-produced programme occurred on 28 February.

A number of major broadcasters (such as ITV, Channel 4, and Sky) transmitted a shared audience awareness campaign, introducing the product placement logo to viewers and explaining its meaning. Other broadcasters have also transmitted alternative audience awareness campaigns or messages.

RADIO

WHAT WE DID

As commercial radio programming is not subject to European legislation in the same way as TV, we provided commercial radio broadcasters with opportunities to access new sources of revenue. We consulted on and introduced new Broadcasting Code rules for radio, balancing the benefits to broadcasters with transparency and protection for audiences. This allowed commercial radio broadcasters to integrate brands, products and services in certain types of radio programming. As with TV, radio stations must signal to listeners that commercial deals are in place.

OUTCOME

Commercial radio broadcasters have been able to integrate brands, products and services into radio programming since our new rules came into force. Many radio broadcasters appear to have extended the scope of sponsor involvement in programming, particularly in the area of sponsored listener competitions. However, the new rules have opened wide-ranging commercial opportunities for radio broadcasters and Ofcom therefore intends to assess, before 2013, how appropriate and effective they have been.

SECTION B

PERFORMANCE AGAINST OUR ANNUAL PLAN PRIORITIES

WHAT WE SAID WE'D DO

Ensure consumers can switch between communication providers, by removing unnecessary barriers.

In 2010, we conducted research which found that 45 per cent of consumers with broadband or a landline telephone regarded switching communications provider as too much hassle. We want to make switching easier while ensuring that providers compete vigorously to deliver benefits to consumers in terms of lower prices, greater choice and innovation. Figure 3 below shows that the proportion of consumers

that switched their communications supplier remained broadly stable between 2009 and 2010.

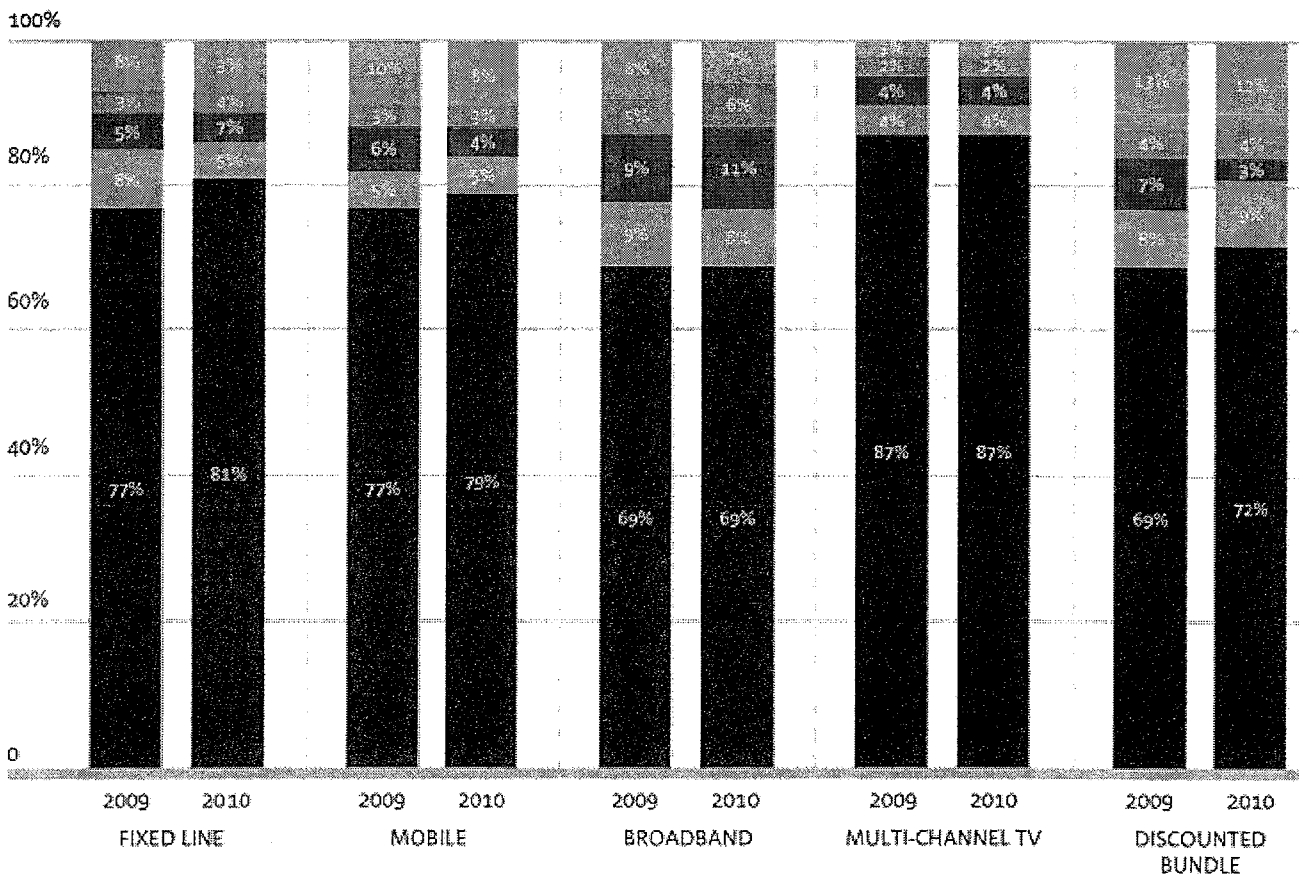
WHAT WE DID

Following discussions with us, BT, TalkTalk and Virgin Media agreed to reduce the charges they levy on customers who leave their contracts early (early termination charges). This ensured that the charges

reflected the costs that the providers save by no longer providing the service. Cheaper early termination charges will also apply to landline customers who receive broadband in the same package.

We also set out our long-term strategic view that when a consumer does switch it should be the gaining provider that takes the lead, as this is most likely to deliver

FIGURE 3. PROPORTION OF CONSUMERS WHO HAVE SWITCHED COMMUNICATIONS PROVIDER IN THE LAST 12 MONTHS



None | Considered without looking | Started looking, not switched | Actively looking | Switched supplier

Source: Ofcom Research Note: Totals may not be 100% due to rounding

the best outcome for consumers and competition. We are now considering how this applies to the current switching processes for fixed and broadband services on BT's copper network. We have been working with industry to consider various options and costs.

In March 2011, we set out proposals to ban automatically renewable contracts that tie consumers with landlines into repeated minimum contract periods unless they opt out.

OUTCOME

Charges that consumers face for leaving their fixed-line phone contracts early were cut by as much as 85 per cent by the UK's three biggest landline providers: BT, TalkTalk and Virgin Media. Other operators followed with cuts to their early termination charges later in 2011. Figure 4 details how termination charges were cut.

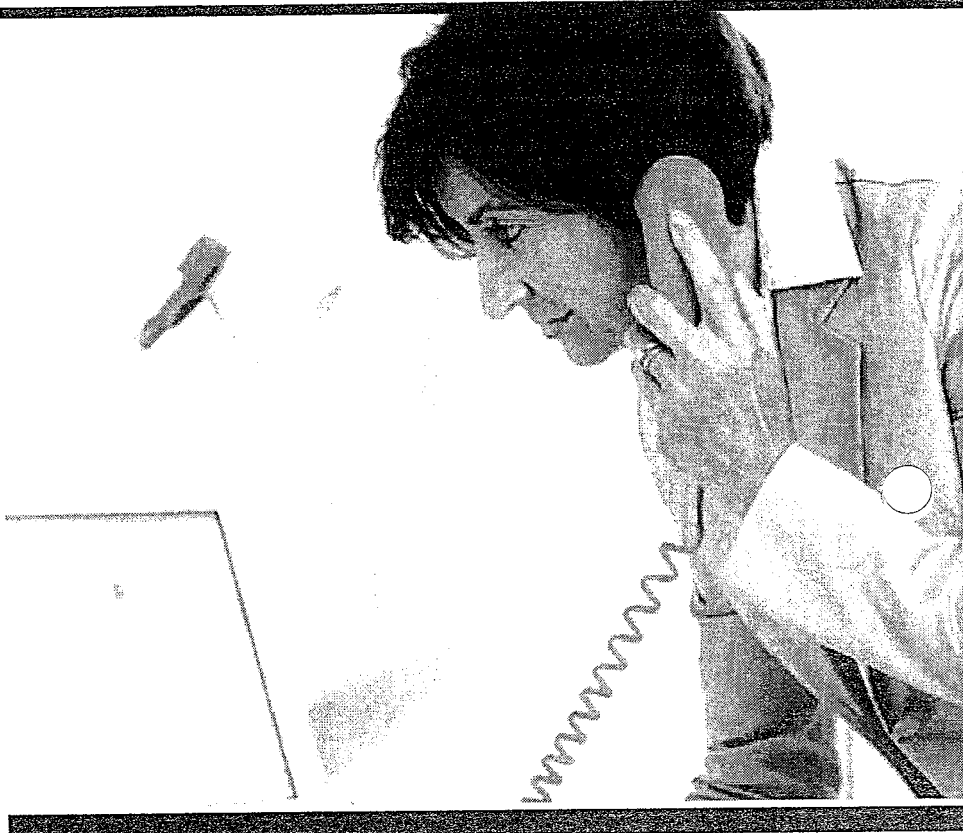


FIGURE 4. EARLY TERMINATION CHARGES FOR POPULAR PACKAGES

Provider and package	Voice	Broadband	Early termination charge before Ofcom statement*	Latest early termination charge*
BT Weekend	✓	-	£11.54	£2.50
BT Evening and Weekend	✓	-	£14.53	£3.00
BT Unlimited Anytime	✓	-	£16.53	£5.50
TalkTalk Evening and Weekend	✓	-	£14.44	£3.00
TalkTalk Anytime	✓	-	£16.98	£3.00
TalkTalk Essential ¹	✓	✓	£18.48	£8.00
TalkTalk Essential ²	✓	✓	£33.48	£13.50
Virgin Media (cable) Phone ³	✓	-	£11.99	£4.00
Virgin Media (cable) Broadband L ¹	-	✓	£17.50	£9.00
Virgin Media (National) Broadband L & Phone M ¹	✓	✓	£35.99	£8.35 (1st month) then £6.35
Virgin Media (National) Broadband L & Phone M ²	✓	✓	£29.99	£6.63 (1st month) then £4.63

Source: company websites.

* Charges are monthly for remainder of contract. Prior to its 1 June changes, TalkTalk's practice was to cap total early termination charges at £70. Virgin Media does not enforce the cable charge shown and its current approach in practice is to discount the charges to £10/month for each cable service shown.

- 1 Provided by local loop unbundling
- 2 Not provided by local loop unbundling
- 3 Virgin Media cable customers taking phone and broadband will pay both charges

Data correct as of April 2011.

WHAT WE SAID WE'D DO

Ensure the delivery of wireless services for the London 2012 Olympic Games and Paralympic Games.

The London 2012 Olympic and Paralympic Games take place between 27 July and 9 September 2012. Demand for spectrum will be exceptionally high from broadcasters, organisers, teams and others.

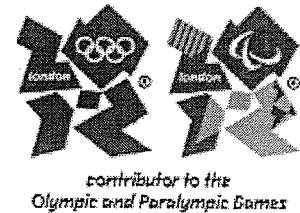
The Government has guaranteed to the International Olympic Committee that sufficient spectrum will be made available for the Games: Ofcom is responsible for delivering this guarantee and for endeavouring to ensure that the spectrum needs of other users are also met at this time.

WHAT WE DID

In October 2010, we published an updated spectrum plan for wireless communications at the London 2012 Games, outlining how these exceptional spectrum needs will be met. A final version of the plan will be published early in 2012. In December 2010, we also took a decision to reserve spectrum in the 2.6 GHz band for use by wireless cameras at the 2012 Games. In parallel, we have built and tested an automated licensing system, which allows us to optimise the way the scarce spectrum is assigned to users.

OUTCOME

In 2010/11, Ofcom's efforts focused on a rigorous programme of testing and planning. We expect the London 2012 Games to rely even more heavily on wireless communications than previous events. **Ofcom's role in providing sufficient spectrum, and effective management to keep it free from harmful interference, will contribute to the success and safety of the Games.**



MAJOR AREAS OF WORK NOT SET OUT IN OUR 2010/11 ANNUAL PLAN

While we plan our work around our strategic priorities and fulfilling our duties, we also carry out vital work that is unplanned. In 2010/11, this included:

THE PUBLIC INTEREST TEST INTO THE PROPOSED ACQUISITION OF SKY BY NEWS CORPORATION

During the last weeks of 2010, we provided advice to the Secretary of State on the public interest considerations raised by News Corporation's acquisition of the shares in Sky that it does not own. We subsequently provided advice as to whether proposed Undertakings in Lieu (UILs) of a reference to the Competition Commission addressed those concerns.

We also proposed that the Government considers undertaking a wider review of the statutory framework to ensure plurality in the public interest in the longer term. The basis of this suggestion was that the current system does not provide for intervention to be considered where plurality concerns arise in the absence of a corporate transaction involving media enterprises.

DEALING WITH INDUSTRY DISPUTES

In 2010/11 we resolved a record ten disputes between companies in the communications industries. These covered a wide range of issues from mobile call termination rates to a dispute relating to charges for calls to non geographic telephone

numbers. All but two of these, due to exceptional circumstances, were resolved within the statutory deadline.

INTERNAL EFFICIENCY REVIEW TO REDUCE SPENDING

In early 2010, we launched a major programme to identify significant expenditure savings in response to the challenge facing the public sector more generally. This built on Ofcom's track record of cutting its budget year on year to reduce its burden on taxpayers and stakeholders. Over the four years to 2014/15 Ofcom will reduce its total budget by 28.2 per cent in real terms. In a drive to reshape and refocus the organisation, the majority of the cuts will be made in year one.

OUR ONGOING RESPONSIBILITIES AND THE RESOURCES WE MANAGE

As well as fulfilling our Annual Plan priorities, we are constantly working to achieve the best outcomes for citizens and consumers within our day-to-day responsibilities.

CONSUMER PROTECTION

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

During the past year, we focused on:

- helping consumers to resolve complaints;
- tackling repeat silent calls;
- improving the accuracy of information about broadband speeds; and
- simplifying geographic telephone numbers.

NEW HELP FOR CONSUMERS TO RESOLVE COMPLAINTS

Ofcom's advisory team continues to receive complaints about poor customer service; for example, complaints being ignored, refusal to escalate complaints to managers and incorrect information being given.

We introduced a single mandatory Code of Practice in January 2011 setting out minimum standards for providers when handling complaints from consumers. The Code of Practice provides consistency in standards and enables Ofcom ultimately to take enforcement action against providers who do not treat complainants fairly. We also committed to publish periodically a list of customer complaint statistics related to specific communications providers.

All communications providers in the UK must belong to an alternative dispute resolution (ADR) service – CISAS or Ombudsman Services: Communications (formerly Otelo). Ofcom research shows that dispute resolution services improve outcomes for consumers⁹. For example, of those complaints about mobile providers that were not resolved within 12 weeks, 91 per cent were resolved when

taken to a dispute resolution service, compared with 51 per cent of complaints where the consumer did not go to a dispute resolution service.

We also introduced new rules to increase consumers' awareness of their rights when dealing with unresolved complaints. From July 2011, communications providers will have to include information of the relevant dispute resolution service on all paper bills. They will also have to write to consumers whose complaints have not been resolved within eight weeks to inform them of their right to take their complaint to a free and independent dispute resolution service.

OFCOM INTRODUCES NEW RULES TO TACKLE REPEAT SILENT CALLS

Silent calls can cause significant distress to consumers. Ofcom consumer research conducted in March 2011 showed that 28 per cent of people had experienced silent calls on their landline in the past six months. Where consumers have complained to us about silent calls, and told us how often they are receiving these calls, over 70 per cent say that they have received two or more calls in a day from the same company.

⁹ http://stakeholders.ofcom.org.uk/consultations/complaints_procedures/statement

SECTION B

OUR ONGOING RESPONSIBILITIES AND THE RESOURCES WE MANAGE

New rules came into force in February 2011 to help prevent consumers being harassed by repeat silent calls. These prevent a company using answer-machine detection equipment more than once a day, unless a call centre agent is on hand to answer the call. This means that consumers should no longer receive repeat silent calls from the same company over the course of a day. We continue to monitor complaints about silent and abandoned calls and expect to see an overall reduction in harm as providers cease these practices. Where we find that companies breach our rules, we will take appropriate action, including fining up to a maximum of £2m, up from the previous maximum of £50,000.

BROADBAND SPEEDS

Ofcom continued to carry out its comprehensive research into fixed-line broadband speeds, the latest of which was published in March 2011. We found that the average broadband speed in the UK was 6.2 Mbit/s in November/December 2010¹⁰; this was 45 per cent of the average advertised 'up to' broadband speed of 13.8 Mbit/s.

There was an increase in the level of consumer dissatisfaction with fixed-line broadband speeds, up from 14 per cent in 2009 in to 19 per cent in 2010. We published a revised voluntary code of practice – coming into force in July 2011 – which aims to ensure that consumers are given an estimated speed range that they can achieve on their broadband line. The new code also allows consumers to leave their contracts should they achieve speeds significantly below what they were advised at point of sale, if steps taken by providers to improve speeds are unsuccessful.

¹⁰ A new methodology was introduced for the December 2010 broadband speeds research.

¹¹ <http://stakeholders.ofcom.org.uk/binaries/consultations/simplifying-non-geo-numbers/summary/non-geo.pdf>

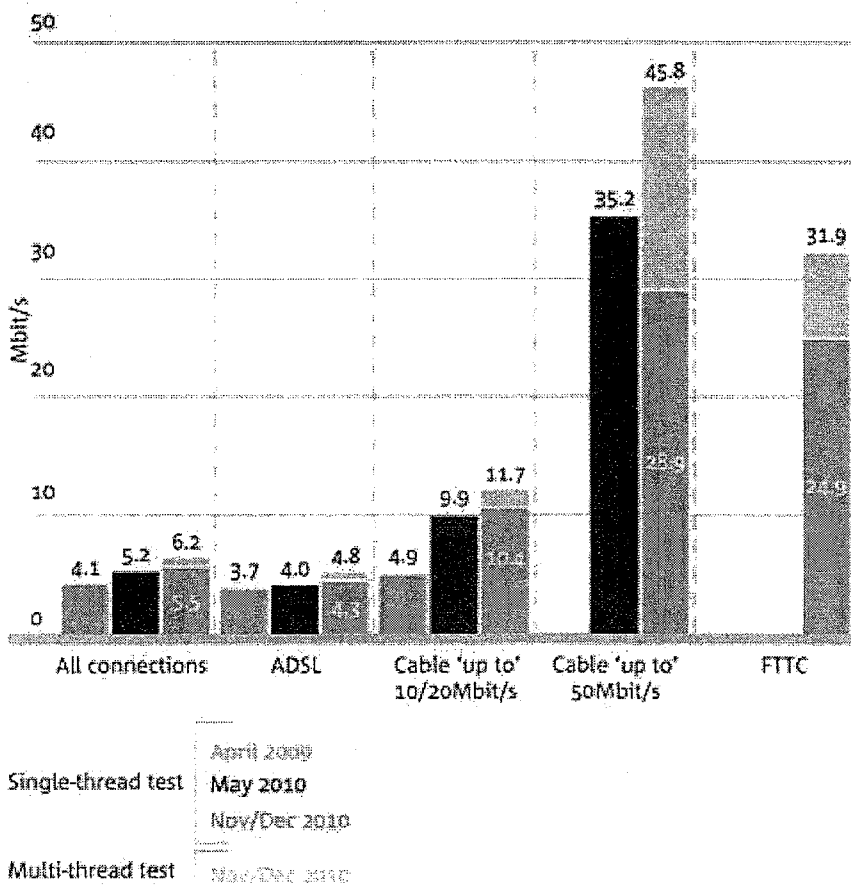
We engaged with the Advertising Standards Authority (ASA) on broadband speeds advertising. In our response to a consultation by the Committee for Advertising Practice (CAP) and Broadcast Committee for Advertising Practice (BCAP), we recommended changes to the advertising guidelines to ensure that consumers are not misled about the speeds available to them. Figure 5 shows how the proportions of consumers choosing higher-speed broadband packages have increased over time.

SIMPLIFYING NON-GEOGRAPHIC TELEPHONE NUMBERS

People dial non-geographic telephone numbers (for example, those beginning with 08 and 09) to contact a range of organisations such as businesses, Government agencies and charities. These numbers can be used to provide information to consumers, to enable products and services to be purchased and for voting on TV shows.

Prices for calling these numbers vary, depending on many factors such as whether calls are made from a landline or mobile. Research

FIGURE 5. AVERAGE DOWNLOAD SPEEDS FOR FIXED BROADBAND CONNECTIONS



Source: SamKnows measurement data

Note: For the Nov/Dec data collection we amended our test schedule to measure speeds on the basis of multi-thread tests (i.e. when multiple files are downloaded simultaneously), as multi-thread tests are increasingly representative of the way in which broadband is used. We did not collect enough multi-thread test data in April 2009 or May 2010 to have like-for-like comparison.

has revealed that consumers are unclear about the cost of calling non-geographic numbers¹¹. This lack of transparency is preventing many people from accessing telephone services, especially in lower-income households.

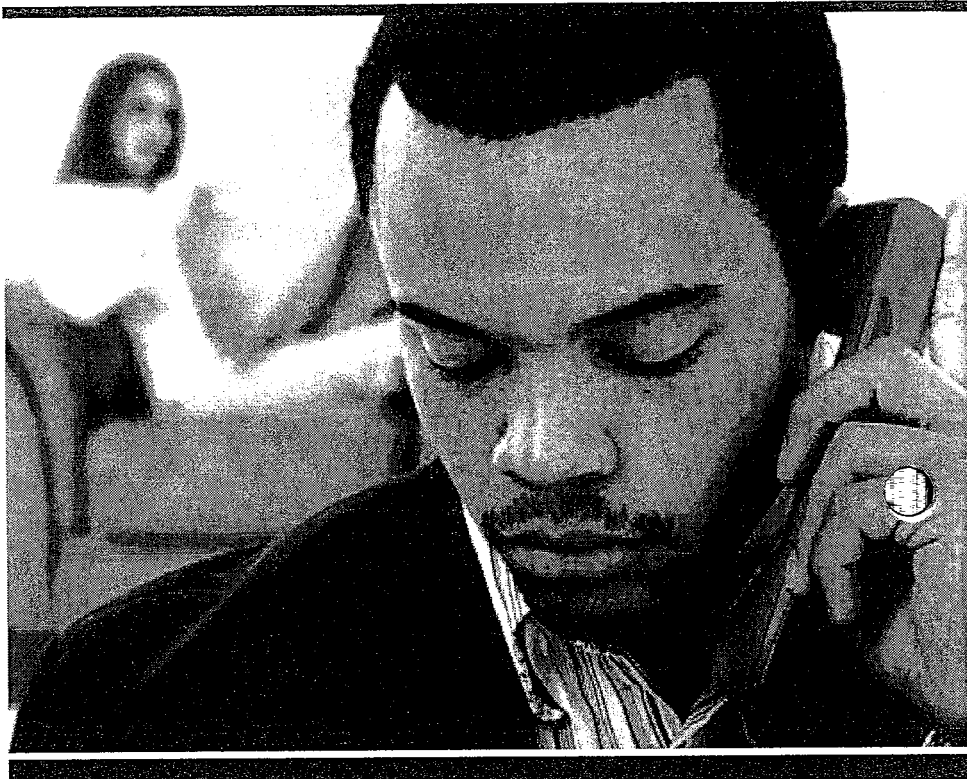
In December 2010, we launched a consultation proposing ways to improve consumers' experience of using these numbers. Under the proposals, calls to 0800 numbers would be free from mobiles, as they already are from BT landlines (it currently costs up to 40p a minute to call 0800 numbers from a mobile). The moves should also provide far more clarity for other categories of non-geographic calls, such as the pricing of 118 directory enquiry services, potentially leading to more effective competition and cheaper calls.

COMPLIANCE AND ENFORCEMENT OF COMMUNICATIONS SERVICES

When problems occur in the markets Ofcom regulates, we have a range of powers that enable us to step in and take action for the benefit of citizens and consumers. This can involve encouraging competition or resolving disputes between communications providers. We also enforce consumer protection law, protect and manage the radio spectrum, and ensure that viewers and listeners are protected from offensive and harmful material and are treated fairly.

OFCOM OPENED INDUSTRY-WIDE INTERNATIONAL CALLING CARD ENFORCEMENT PROGRAMME

Ofcom opened an industry-wide monitoring and enforcement programme into the advertisement and sale of international calling cards. This followed research showing that consumers were often confused about the charges and terms and conditions of calling

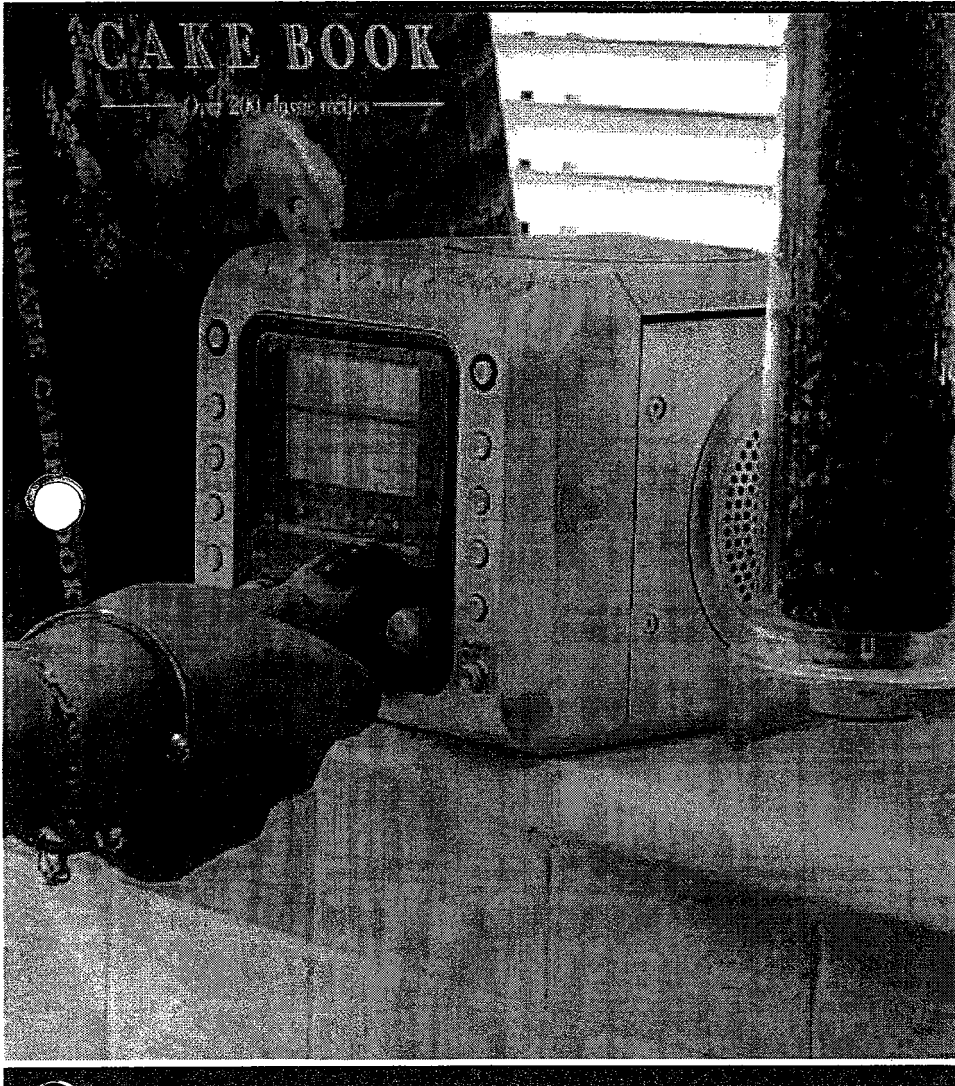


cards, which are widely used by the UK's large immigrant population looking to make overseas calls. More than five million UK adults use international calling cards, each spending on average £13 a month on calls.

In September 2010, Ofcom accepted undertakings from Lycatel, a retailer of calling cards, in respect of its advertisements and terms and conditions. An Ofcom investigation found that Lycatel's advertisement of its international calling cards potentially breached the Consumer Protection from Unfair Trading Regulations 2008 and the Unfair Terms in Consumer Contracts Regulations 1999. Lycatel made changes to its advertising materials and terms and conditions and was compliant by the deadline of December 2010. In March 2011, we opened an investigation into Nowtel to consider whether its advertising practices and its terms and conditions infringe any consumer protection law.

LANDLINE MIS-SELLING

Landline mis-selling remains one of the most complained-about issues to Ofcom. Our monitoring has shown that a significant number of alleged 'slamming' complaints – where consumers are switched to a different supplier without their consent – are driven by errors rather than by deliberate mis-selling. We are working with industry to address these problems. We also continue to tackle mis-selling by taking enforcement action against companies generating the most complaints, using new strengthened rules introduced by General Condition this year. In the past 12 months we have conducted investigations into Continental Telecom, TalkTalk Group, Plus Save Telecom and KCT.



TALKTALK AND TISCALI UK BREACHED CONSUMER PROTECTION RULES

We received over 1,000 complaints in 2010 from consumers who told us they had received bills from TalkTalk and from Tiscali UK (both part of Talk Talk Group) for services that had been cancelled. As a result of our intervention, TalkTalk and Tiscali UK returned almost £2.5m in refunds and goodwill payments to consumers who had been incorrectly billed for cancelled services. The investigation is ongoing.

CONTINENTAL TELECOM FINED THE MAXIMUM £50,000

Ofcom opened an investigation into Continental Telecom following an increase in complaints about customers being misled into signing up to the company's landline telephone services. In June 2010, we concluded that we had reasonable grounds to believe that Continental Telecom had used unacceptable sales tactics to sign up consumers; failed to tell customers of their right to cancel during the switchover process; abused the trust of vulnerable customers, including the elderly

and people with special needs, and cut customers off for alleged non-payment of bills without giving them due warning.

Continental Telecom was required to take steps to comply with Ofcom's rules and to remedy the consequences of its breach by, for example, allowing affected customers to end their contracts without charge and to refund fees to customers who had paid to transfer to another provider. It also had to reconnect disconnected customers urgently. The company also failed to provide information requested as part of our investigation and we fined Continental £50,000 for non-compliance.

CONTENT AND STANDARDS IN BROADCASTING

Ofcom has a range of duties in relation to broadcasting which include securing adequate protection for the public from offensive or harmful material and from unfair treatment or unwarranted infringements of privacy; and ensuring a wide range of TV and radio services of high quality and wide appeal.

TV AND RADIO LICENSING

Ofcom carries out its duties by granting broadcast licences, which come with conditions. These conditions include requirements to pay fees, to provide information, to offer specific programmes and types of content, and to comply with various codes of practice issued by Ofcom.

On 1 April, 2011, we launched the third wave of Community Radio licensing. Around 11 million people are now able to tune into community radio stations across the UK, which is up 17 per cent year on year, and an increase of more than a third (36 per cent) since 2008. By March 2011, 228 community radio licences had been issued and 181 stations were on air.

COMPLIANCE AND ENFORCEMENT

Where the Broadcasting Code has been breached, we normally publish a finding and explain why a broadcaster has breached the Code. When a broadcaster breaches the Code deliberately, seriously or repeatedly, Ofcom can impose statutory sanctions against the broadcaster, such as a financial penalty or revocation of a licence. Below are examples of Ofcom's decisions over the past year.

SANCTIONS ON ADULT CHANNELS

In March 2011, we announced a decision to revoke the TV broadcasting licence of Live 960, an adult channel owned by Hopprr Entertainment, following serious breaches of its licence. Ofcom repeatedly requested that Hopprr Entertainment submit a Change of Control Notification form and a signed declaration that clearly and accurately recorded its directors and ownership structure. Despite these requests, Hopprr Entertainment Limited failed to comply, breaching Licence Conditions 12 and 13. Ofcom considered that it was necessary, in the public interest, to revoke its licence.

Ofcom also revoked four TV broadcast licences owned by Bang Channels Limited and Bang Media (London) Limited, following serious and repeated breaches of the Broadcasting Code. Over a sustained period of time the licensee's broadcast was repeatedly held to breach provisions of the Broadcasting Code relating to the

BROADCASTING COMPLAINTS AND INVESTIGATIONS

Audience complaints about possible breaches of the Broadcasting Code play an important role in ensuring viewers and listeners are appropriately protected. Ofcom

protection of minors and causing offence. Ofcom therefore decided that the companies were no longer 'fit and proper' to hold broadcast licences and the channels were removed from the air.

“

WHEN A BROADCASTER BREACHES THE CODE OFCOM CAN IMPOSE STATUTORY SANCTIONS.”

UMMAH CHANNEL

For the first time, a TV channel was found by Ofcom in breach of the Code for allowing presenters and callers to phone-in programmes, to abuse the religious views and beliefs of those belonging to a particular religion. Ummah Channel is a broadcaster promoting 'knowledge of Islam'. The channel broadcast three programmes which included derogatory and abusive references about Ahmadis – members of a minority Islamic movement who have been severely persecuted in some Islamic countries.

assesses each complaint it receives against the Broadcasting Code, or other relevant code or licence condition. We then decide whether a complaint raises potential issues that require further investigation. During the past year, Ofcom reached

FAIRNESS COMPLAINT BY MEREDYDD HUGHES

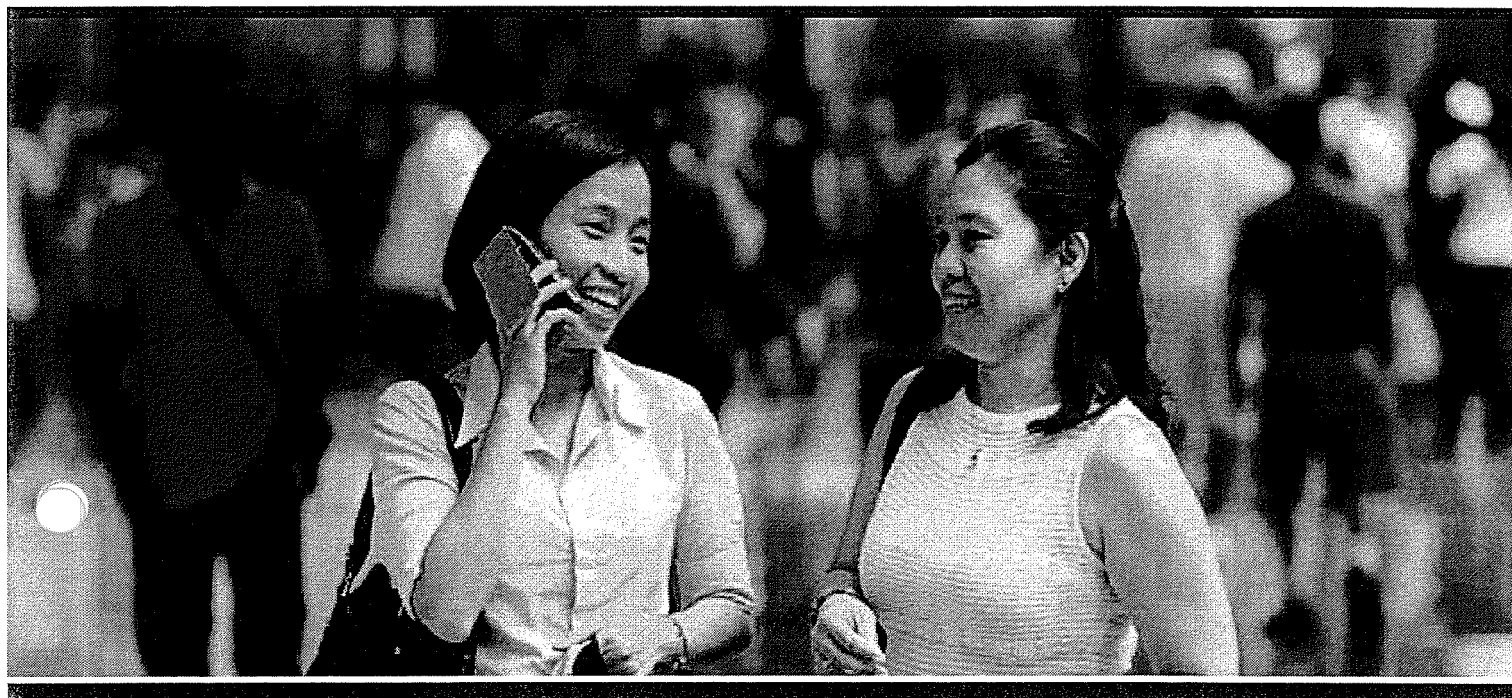
Ofcom upheld a complaint made by Meredydd Hughes, the Chief Constable of South Yorkshire Police, against ITV News. We found the broadcaster had unfairly edited an interview given by Mr Hughes about Anti-social Behavioural Orders (ASBOs). ITV News had taken the Chief Constable's interview out of context and implied that he thought anti-social behaviour was unimportant. This unfairness was then made worse when the ITV News presenter summarised Mr Hughes views as "shrugging off" the problem of anti-social behaviour in an interview with Gordon Brown, who was at the time Prime Minister. We directed ITV to broadcast a summary of our decision on this case.

STV

In 2010, we published a finding in relation to STV (Scottish Television) programme sponsorship by the Scottish Government and its agencies. We launched an extensive investigation of 57 Government-sponsored programmes broadcast on STV in 2008 and 2009. We found that the *Homecoming* programmes, which had featured in the press allegations, were not in breach of the Code. However, we found that 18 other programmes were in breach of the sponsorship rules.

See page 101 in the Statistical Data section for further details on complaints.

decisions on 24,462 complaints about broadcasting standards or licence conditions, and 171 complaints about unfairness and/or unwarranted infringements of privacy.



INTERNATIONAL

Ofcom's activities and those of the companies it regulates are strongly influenced by international developments. We engage closely with European institutions, national communications regulators and international partners. We do this with a view to influencing decisions in the communications sector taken in international fora to ensure that they are practical, proportionate and best reflect the interests of UK citizens, consumers and all UK stakeholders.

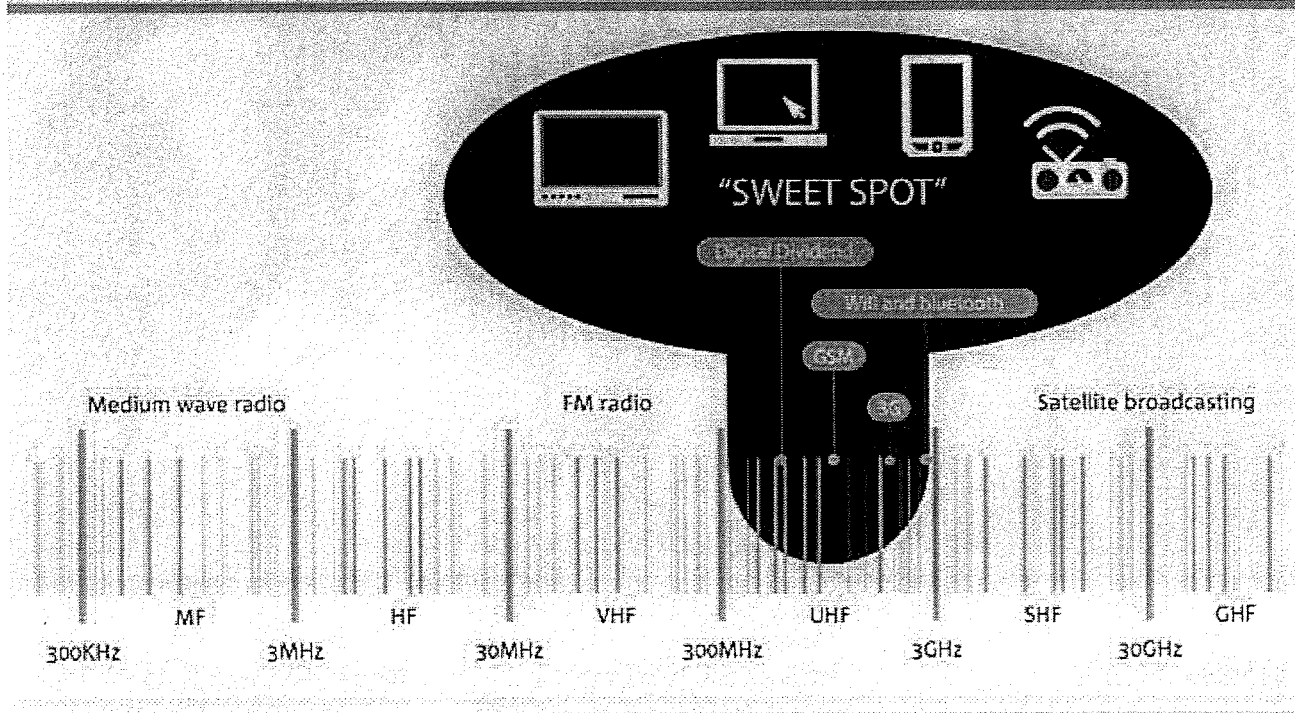
In 2010, we worked with Government on the implementation of the revised EU Regulatory Framework for Electronic Communications. This will bring in important new rights and protections for consumers and citizens in areas such as equivalence of service provision and access for disabled users, transparency and number portability. It also gives Ofcom new responsibilities in areas such as network security and

resilience and infrastructure-sharing, and extends our powers in information-gathering and enforcement. We also:

- supported the work of the Body of European Regulators in Electronic Communications (BEREC), which has replaced the European Regulators' Group. Key issues for BEREC in 2010 included international roaming, regulatory remedies, next generation access networks and net neutrality;
- participated as part of the UK delegation at the International Telecommunication Union Plenipotentiary Conference. We took a lead role on satellite interference and reforming the International Telecommunication Regulations;
- 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;
- took part in the Radio Spectrum Policy Group and its working groups, dealing with issues which included the Radio Spectrum Policy Programme, the digital dividend, competition issues in spectrum management and cognitive technologies;
- contributed, working closely with the British Government and the EU institutions, to the development of the EU's Digital Agenda proposals; in particular, the European Commission's broadband strategy, and related work on spectrum and next generation access networks; and
- chaired the Working Party on Communication, Infrastructures and Services Policy (CISP), a working party within the Organisation for Economic Co-operation and Development, which works on regulatory policy issues in the electronic communications sector.

SPECTRUM

FIGURE 6. UK SPECTRUM BANDS



WHAT IS SPECTRUM?

Spectrum is the airwaves on which all wireless communications rely, and underpins many of the communications services that consumers use today, such as TV, radio and mobile telecoms. It has become essential to modern economies but it is also limited in supply, which makes it highly sought-after.

Frequencies do not have the same characteristics; signals over lower frequencies travel much further than in higher frequencies but cannot carry as much information. The frequencies in greatest demand are between 300 MHz and 3 GHz. It

is considered to be prime spectrum, or the 'sweet spot', because it is suitable for a variety of applications (see Figure 6).

WHY IS SPECTRUM IMPORTANT?

Commercial and public uses of spectrum are hugely important to both society and the economy. A 2006 study conducted for Ofcom estimated that its use underpinned three per cent of UK GDP and generated benefits worth over £40bn a year, a figure that had grown by at least 50 per cent in real terms since 2002. We are now preparing to auction two significant spectrum bands –

800 MHz and 2.6 GHz – which are equivalent to three quarters of the mobile spectrum that is in use today. Both bands lie within the so-called 'sweet spot' and are identified within the EU for next generation mobile broadband use.

The combination of low and high frequency spectrum creates the potential for mobile companies to roll out the fourth generation (4G) of mobile services across the UK with good capacity as well as good coverage. 4G services should make it much quicker to surf the web on your mobile – speeds will be nearer to those currently experienced with home broadband.

“ SPECTRUM IS LIMITED IN SUPPLY, WHICH MAKES IT HIGHLY SOUGHT-AFTER. ”

SECTION B

OUR ONGOING RESPONSIBILITIES AND THE RESOURCES WE MANAGE



SPECTRUM LICENSING, MONITORING AND ENFORCEMENT

Ofcom is responsible for managing civilian access to radio spectrum. Our work involves releasing spectrum for new uses, as well as developing policies such as spectrum trading and spectrum pricing to ensure that spectrum is used efficiently. We also monitor the airwaves 24 hours a day to identify cases of interference, and take action against illegal broadcasters and users of unauthorised wireless devices. Some of the major areas of focus for Ofcom in the year included the following:

SIMPLIFYING SPECTRUM TRADING

Spectrum trading, which we introduced in 2004, allows spectrum to be traded between users and used by those who can use it to best advantage. In April 2010, we simplified these rules after consultation with

industry to take advantage of a provision in the revised European Framework Directive to introduce a new form of trading, called spectrum leasing, that will cut transaction costs and be faster to execute.

UPDATING SPECTRUM FEES

Administrative Incentive Pricing (AIP) fees, which were first introduced by the Radiocommunications Agency in 1998, are one of the levers we can use where appropriate to provide incentives for efficient use of spectrum. In 2010/11, we concluded consultations on introducing fees set on AIP principles to some maritime and aeronautical VHF licences, and we also published a further consultation on refinements to fees for certain aeronautical VHF licences (consultation closed in 2011/12). We also continued a wide-ranging consultation, begun at the end of 2009/10, on our overall approach to setting AIP-based fees, and as a result of stakeholder input we were able to clarify a number of elements of our approach.

SPECTRUM LICENSING AND ENFORCEMENT

We reviewed the effectiveness of our licensing tools and procedures during 2010/11, particularly for Business Radio licensees. As a result, we are looking to improve the processes around licence renewal and revocation as well as arranging additional field visits by Ofcom Field Engineering Officers to check that equipment is not being used where licences have been revoked. We are also reviewing our Technical Assignment tools in respect of those bands and geographic areas where congestion exists.

PROTECTING THE AIRWAVES

Illegal broadcasting – or pirate radio – is a significant problem in some of UK's major urban areas. Key safety-of-life services – including ambulance, fire, police and air traffic

control – as well as licensed BBC, commercial and local community radio stations can suffer interference from these illegal stations. We disconnected 191 main transmission sites for pirate radio stations in 2010/11, up from 162 in 2009/10.

INCREASING SPECTRUM FOR SATELLITE UPLINKS FOR NEWS GATHERING

We made additional spectrum available for Transportable Earth Station satellite uplinks, to meet demand from stakeholders. Transportable Earth Stations are typically used by satellite news gathering organisations to provide live and breaking news stories via satellite for onward broadcast.

OFCOM PROGRESSES PLANS FOR NEW WIRELESS TECHNOLOGY

We set out proposals for the way in which a new form of wireless communication called 'white space technology' will work in practice.

White space is the name given to bands of spectrum that are unused by the licence holder in a particular location. Under certain conditions, access to this spectrum could be granted, provided that harmful interference is not caused to existing services. In previous consultations, we identified approaches by which devices can gain access to white space spectrum in a way that does not cause interference. During 2010/11, we developed more detailed plans for one such approach – the geo-location database. Essentially, a white space device notifies a geo-location database of its location and in return is instructed to use a range of frequencies and power levels deemed not to cause harmful interference to other spectrum users.

COMPETITION

Ofcom has a range of duties based around promoting and ensuring competition. These include implementing competition policy under our sectoral powers: for example, reviewing markets, competition law enforcement, consumer law enforcement and resolving disputes.

Ofcom has concurrent powers under the Competition Act 1998 to deal with anti-competitive behaviour in broadcasting, spectrum and telecoms. Ofcom also has the power to apply Article 81 and Article 82 of the Treaty on the Functioning of the EU in addition to the Chapter I and Chapter II prohibitions of the Competition Act.

These guidelines do not cover complaints about television and radio programmes, EPG content or spectrum interference. Some of the major decisions taken in the year included:

REDUCING MOBILE TERMINATION RATES

In March 2011, we announced cuts in mobile termination rates – the wholesale charges that mobile operators make to other operators to connect calls to their networks – designed to benefit UK consumers. Ofcom set new rules including a cap on the rates charged by all four national mobile network operators – 3UK, O2, Everything Everywhere and Vodafone.

This will lead to around an 80 per cent reduction in termination rates over the next four years. Lower termination rates will benefit customers in two ways:

- **Cheaper landline services:** Lower termination rates reduce the cost to landline companies of passing calls to mobiles. Ofcom expects these savings to be passed on to consumers in the competitive UK landline market; and

- **More choice:** Lower call termination rates promote competition in the mobile market, providing customers with more choice. Operators will have more pricing flexibility and will be able to increase the range of packages available to consumers.

Following our announcement, BT and TalkTalk said they would include calls to mobiles in some of their landline telephone packages. We expect to see these benefits materialise in future reporting periods.

SUPPORTING THE UK'S SUPER-FAST BROADBAND FUTURE

In October 2010, we outlined measures to promote competition and investment in super-fast broadband services across the UK, which covered two principal interventions:

- **Providing competing services over BT's fibre lines:** we moved to ensure that competitors have access to a dedicated virtual link over new fibre lines laid by BT (known as virtual unbundling). This will give other companies control of the lines to provide super-fast broadband services to their own customers; and

- **Giving access to underground ducts and telegraph poles:** we concluded that BT should be required to offer access to its underground 'ducts' and its telegraph poles to competitors.

BT PENSIONS

In recent years, company 'defined benefit' pension schemes have made headlines as scheme deficits have grown. 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.

We published a further consultation in July 2010 and a final statement in December 2010. We concluded that there was not sufficient justification for changing our treatment of pension funding costs. The final output of our statement was a set of Pensions Guidelines, which we will apply on a case-by-case basis when assessing regulated prices for BT.

PROJECT CANVAS (YOUVIEW)

Project Canvas, now branded YouView, is a partnership between the BBC, ITV, Channel 4, Five, BT, TalkTalk and Arqiva, which will offer digital terrestrial channels and internet-delivered on-demand TV services via a set-top box connected to viewers' TV sets. It is currently expected to launch early in 2012.

In 2010, Virgin Media and IP Vision complained to Ofcom that the elements of the project could potentially be in breach of competition law. Eleven other parties also contacted us with concerns. We decided that it would be premature to open an investigation because IPTV (internet protocol television) is still an emerging sector. We also concluded that it was likely that YouView would bring benefits to viewers and consumers.

HOW WE MANAGE RISKS AND CHALLENGES

Managing risk is an integral part of our day-to-day business activities and forms a key component of our internal control framework. Ofcom's risk management policy clearly defines our approach to managing risk as well as defining the specific risk management roles and responsibilities across the organisation.

To ensure that our risk management framework reflects best practice and is aligned to the requirements of the business, we conduct an annual risk review which includes an exercise to benchmark our

processes against HM Treasury's Risk Management Assessment Framework. Recommendations from the risk review are endorsed by senior management and the Risk and Audit Committee, and form part of

our ongoing programme to improve our internal control framework. The table below highlights some of the key risks currently being addressed by the organisation.

RISK	IMPACT	MITIGATION
<p>Ofcom's ability to regulate in an efficient and timely way is impaired by the increasing volume of appeals and litigation.</p>	<p>Potential delays to the implementation of regulatory changes, which stop consumers benefiting from them at the earliest opportunity and can interfere with effective competition in the markets we regulate.</p> <p>It can also make regulation more expensive for the stakeholders who fund Ofcom.</p>	<p>We make sure that our decisions are evidence-based and robust and we carry out impact assessments to measure the likely effect on stakeholders.</p> <p>We engage with stakeholders throughout our consultation processes to ensure we understand their views and can give them due consideration.</p> <p>The Government is considering a change in the standard of review required for an appeal.</p>
<p>The plans and timetable in place to make additional spectrum available for new mobile services are challenging.</p>	<p>Delays could impact the availability of new telecoms services for consumers and citizens, including mobile broadband.</p>	<p>We have put highly skilled resources in place, and we are using professional programme management expertise to help ensure timely delivery of the plans.</p> <p>We are maintaining close contact with Government.</p>
<p>The sectors regulated by Ofcom are characterised by rapid change, making it challenging to develop plans to anticipate significant activities or events which may require Ofcom's involvement.</p>	<p>Additional unplanned work could affect ongoing and planned projects which could lead to delays in delivering benefits for consumers and citizens.</p>	<p>We seek to maintain breadth of expertise and scope for flexibility in project teams so that resources can be adapted or redeployed at short notice if necessary.</p> <p>Ofcom's Executive Committee is responsible for prioritising projects and adjusting work plans as required. We have strengthened our project planning processes to ensure optimal use of resource.</p>
<p>Government plans to revise the consumer and competition regulatory regimes and to introduce a new Communications Act could result in some short-term uncertainty as to the likely regulatory framework within which Ofcom will work.</p>	<p>Uncertainty could result in delays to certain activities or regulation in areas likely to be affected by the changes.</p>	<p>We are liaising with Government to enable us to plan our work effectively.</p>
<p>The Postal Services Bill requires the transfer of the regulation of postal services from Postcomm to Ofcom.</p>	<p>Potential disruption for industry, consumers and staff at Postcomm and Ofcom.</p>	<p>We look to work with Postcomm as far as practicable to maintain regulatory stability for users and operators.</p> <p>Government has announced the appointment of Ofcom Board members to the Board of Postcomm to aid the transition process.</p>

HOW WE WORK AND WHO WE WORK WITH

Ofcom's statutory duties are set out in the Communications Act 2003. As the independent regulator for the communications industries, we are required to further the interests of citizens and consumers.

We are mainly funded through a combination of stakeholder (television and radio broadcast licence fees and administrative charges to regulate communications networks) and grant-in-aid funding. Further details of our funding arrangements can be found in the Financial Framework on page 43. In January 2011 we published our draft Annual Plan, setting out for consultation our proposed priorities and programme of work for the coming year. The final version of the Plan was published at the start of the financial year. The Plan sets out the balance between new initiatives and ongoing activities that we undertake in support of our duties.

In 2010, as part of our Expenditure Review Programme, we revised our governance structure and clarified the roles of Ofcom's Executive Committee (ExCo) and Policy Executive (PE).

ExCo comprises Ofcom senior executives and is responsible for overseeing the management of Ofcom and ensuring top level read-across between the different groups within the organisation. PE is responsible for monitoring, steering and advising on the development of Ofcom's overall policy agenda. ExCo meets monthly while the PE meets weekly.

We launched a series of consultations in 2010 looking at ways of improving our processes. These included:

- dispute resolution guidelines for the handling of regulatory disputes;
- review of procedures for handling broadcasting complaints, investigations and sanctions;
- procedures for handling appeals on scope, and for imposing sanctions in relation to on-demand programme services; and
- penalty guidelines.

MEASURING AND COMMUNICATING OUTCOMES

In our 2010/11 Annual Plan, we identified 13 'Major Work Areas' with over 60 projects and programmes allocated against them in our published 'Programme of Work'. Ofcom has made good progress delivering outcomes against its 'Major Work Areas' and 'Business as Usual' work in 2010/11.

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.

We continually publish data in a range of Ofcom publications such as the Communications Market Report, the International Communications Market Report, the Consumer Experience Report and the Public Service Broadcasting Annual Report. We also conduct in-depth, periodic consumer research, which we regularly publish in an accessible form on our website.

WHEN WE REGULATE

The Communications Act 2003 requires us to have regard to the principles of better regulation: 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 regulatory principles to inform our day-to-day work. The speed with which the communications sector is changing makes it especially important for us to have clear guiding principles: included in the box below.

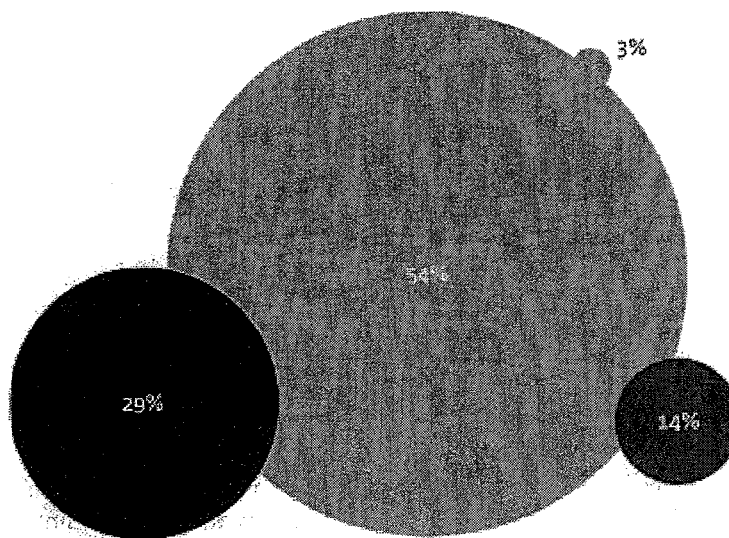
REDUCING REGULATION

A key element of better regulation is ensuring that regulation is properly targeted and does not impose undue burdens on stakeholders. In April 2011, we published details of our simplification initiatives in our 2011/12 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.

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. Figure 7 provides an overview of how the regulatory burden on stakeholders has changed as a result of Ofcom's regulatory decisions and statements in 2010/11. It shows that 29 per cent of statements published during the year resulted in reduced regulation for stakeholders. Fifty-four per cent of the statements saw no change in regulatory burden or the work is ongoing; 14 per cent saw the introduction of increased or new regulation while three per cent resulted in streamlined or co-regulatory outcomes.

FIGURE 7. IMPACT OF OUR STATEMENTS ON THE REGULATORY BURDEN TO STAKEHOLDERS IN 2010/11

OF THE 59 MAJOR STATEMENTS MADE IN THE YEAR:



Reduced regulation | Streamlined/co-regulatory

Mixed/no change/ongoing | Increased/new regulation

OFCOM'S REGULATORY PRINCIPLES

WHEN WE REGULATE

Ofcom will operate with a bias against intervention, but with a willingness to intervene promptly and effectively where required.

Ofcom will intervene where there is a specific statutory duty to work towards a goal that markets alone cannot achieve.

HOW WE REGULATE

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

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.

Specifically, we take decisive and effective action to protect citizens and consumers where necessary, for example:

- our work to reduce mobile call termination charges;
- tackling abandoned and silent calls; and
- reducing early termination charges.

We are committed to reducing regulation by, for example:

- reviewing the Broadcasting Code to permit commercial references in TV and radio; and
- simplifying spectrum trading.

We also removed a number of rules governing the way TV airtime is sold to media buyers and advertisers. The Airtime Sales Rules, which were lifted in September 2010, required ITV1, Channel 4 and Five to sell all their advertising airtime, and restricted the way in which all broadcasters can sell bundles of advertising airtime across their portfolios of channels.

Since the rules were introduced, there have been significant developments in the TV sector and a substantial increase in the number of channels. This has led to increasingly fragmented TV audiences and enabled media buyers to purchase airtime across many more channels.

We took steps to deregulate the commercial local radio sector by allowing local FM stations to co-locate and share all of their programming within approved areas, enabling them to merge to form larger, more financially viable stations. These groups of stations must continue to meet their licence obligations to provide local material relevant to the listeners in their licensed areas, including local news bulletins.

An overview of the key decisions and statements that we have made during the year can be found in the annex: List of statements published in 2010/11 including regulatory impact, on page 96.

RELATIONSHIPS WITH STAKEHOLDERS

Ofcom's role as a regulator requires us to engage with a wide range of stakeholders, including companies and industry bodies in the sectors we regulate, consumers and consumer groups, the UK Government and devolved administrations, co-regulators and other regulators. We also engage with various international organisations and regulatory bodies.

CONSULTATIONS

Consultations allow our policy proposals to be properly scrutinised, prior to a decision. If the period for 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

CONTACT WITH CONSUMERS AND CITIZENS

To help us understand consumer and citizen interests, Ofcom has adopted a range of approaches and contacts with stakeholders. This includes making extensive use of market research to understand trends around the take-up and use of communications services and the behaviour and concerns of consumers. Our annual Consumer Experience and Communications Market Reports, in particular, highlight and analyse these trends.

Ofcom's Consumer Contact Team receives over 100,000 calls directly from consumers each year and the information consumers provide helps us target our policy making and enforcement work. While we cannot resolve individual complaints about telecommunications services, we provide advice to complainants and refer them to the Alternative Dispute Resolution schemes that we have approved.

The Communications Consumer Panel and, from the perspective of each nation of the UK, Ofcom's Nations Committee and Advisory Committees, provide advice on Ofcom's policy making. The Consumer Forum on Communications, with over 40 members from consumer bodies, meets quarterly with Ofcom to discuss and share information on consumer policy topics. We also hold regular bilaterals with consumer stakeholder organisations as well as consultation meetings on specific topics.

■ 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 an existing policy or regulation.

FIGURE 8. ANALYSIS OF CONSULTATION DURATION 2010/11

	Consultation period at least 10 weeks	Consultation period less than 10 weeks (including category 2 and category 3 consultations)
Telecoms	11	23
Broadcasting	4	20
Spectrum	1	4
Other	1	1
Total	17 (26%)	48 (74%)

“ IN 2010/11, 26% OF OUR CONSULTATIONS LASTED AT LEAST TEN WEEKS, COMPARED TO 51% IN 2009/10 ”

Figure 8 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. In 2010/11, 26 per cent of our consultations lasted at least ten weeks, compared to 51 per cent in 2009/10 and 52 per cent in 2008/9.

Ofcom collects statistics on the number of responses to consultations, which are shown in Figure 9. The chart illustrates the large number of responses we have had over the year, based on the 59 consultations where we subsequently published a statement. Ten consultations attracted a very wide range of responses (i.e. 31 or more). This is fewer than in 2009/10 when four consultations attracted 31 or more responses. More than half of consultations attracted ten or fewer responses.

FIGURE 9. RESPONSES TO CONSULTATIONS IN 2010-11

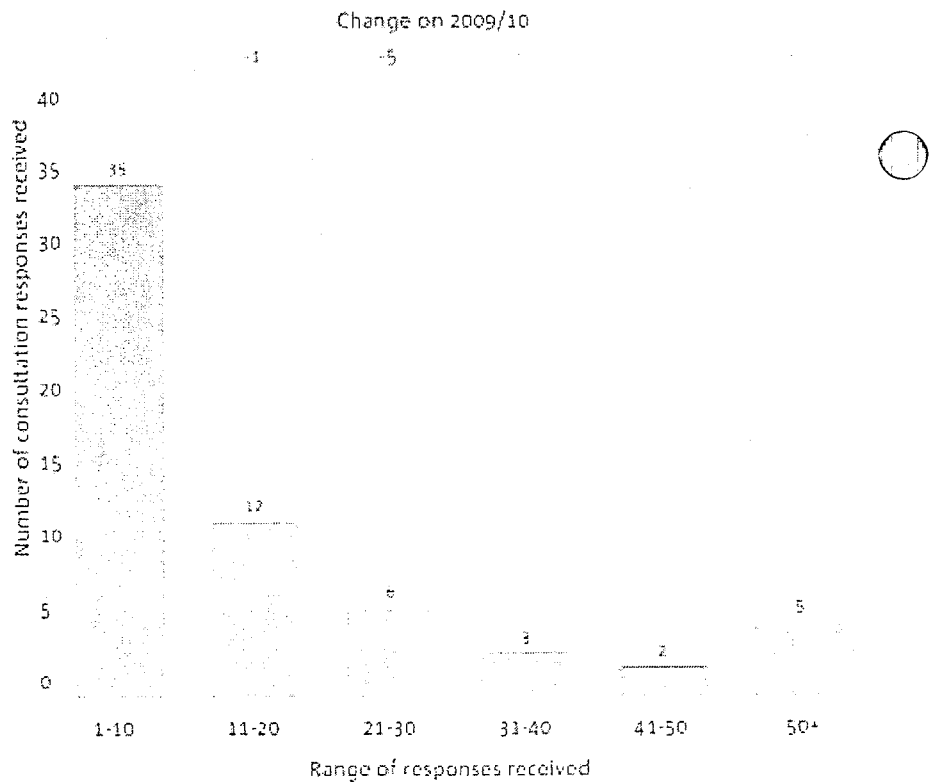
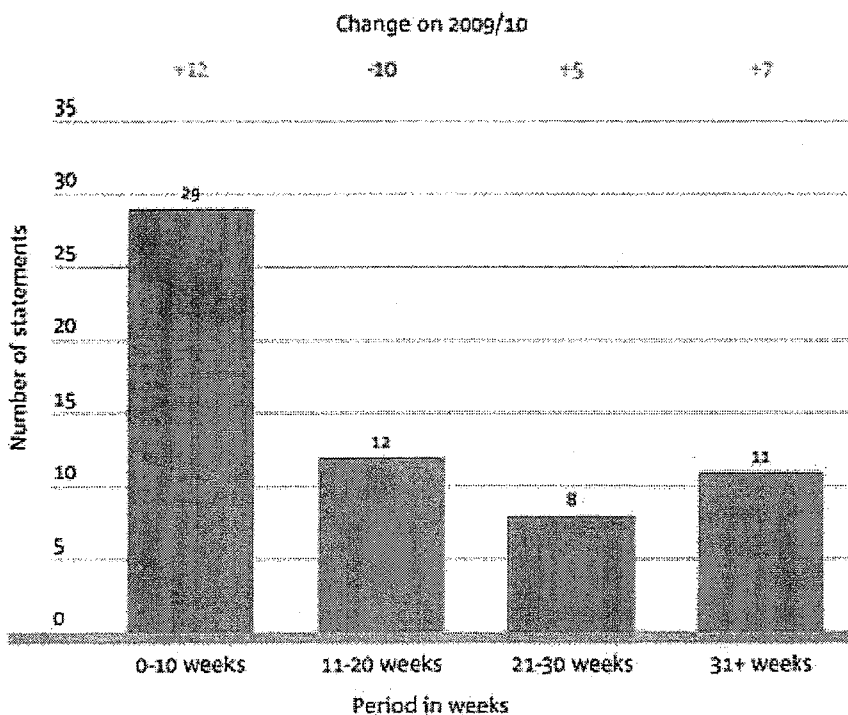


FIGURE 10. ANALYSIS OF THE TIME TAKEN TO PUBLISH AN OFCOM DECISION FROM THE CLOSE OF THE CONSULTATION PERIOD IN 2010/11



TIMELINESS OF DECISION-MAKING

We also analyse how long it takes us to publish a decision following the close of a consultation (see Figure 10). In 2010/11 the majority of decisions (29) were announced less than ten weeks after closing a consultation, an increase of 12 on 2009/10. The number of decisions that were published between 11 and 20 weeks after the end of the consultation period was 12, a reduction year on year.

IMPACT ASSESSMENTS

Impact Assessments (IAs) are an important part of the policy-making process. Section 7 of the Communications Act 2003 requires us to carry out an IA when 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, among other things, 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 must publish a list of the IAs carried out during the year, which appears here in the annex on page 99.

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.

Fifty-nine per cent of consultation documents contained a clearly-labelled impact assessment, set out in a specific section or annex of the consultation document (63 per cent in 2009/10). (See Figure 11.)

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.

FIGURE 11. ANALYSIS OF IMPACT ASSESSMENTS CARRIED OUT

Number of consultation documents	Total	IA explicit in published document
Telecoms	34	25
Broadcasting	14	13
Spectrum	21	4
Other	2	-
Total	71	42
		(=59.1%)

NEW AND REVISED DUTIES

We are also implementing new or revised duties. There are several amendments to UK legislation, implemented or proposed by the Government and being considered by Parliament, that will change our duties. Some of these enable us to reduce our costs while others will require us to undertake new responsibilities. They include:

- implementing the provisions in the Digital Economy Act 2010 aimed at addressing online copyright infringement;
- a possible Order under the Public Bodies Bill, through which the Government has proposed to reduce Ofcom's duties in some areas; for example, the frequency of the media ownership review and the public service broadcasting review; and
- the transfer of regulation of postal services to Ofcom from Postcomm, proposed in the Postal Services Bill.

There are also requirements for Ofcom to comply with specific provisions of the revised European Communications Framework. These include:

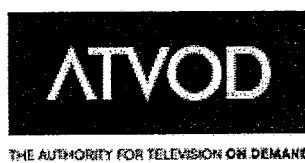
- revising our General Conditions and Universal Service Conditions;
- changes to the dispute resolution and enforcement processes; and
- amendments to our market review processes; for example the requirement for market reviews in certain markets to be conducted every three years.

We will also continue to engage with the European Commission (EC) on its Radio Spectrum Policy Programme, with a view to supporting proposals that are consistent with our Digital Switchover (DSO) and spectrum clearance timetable.

The Digital Radio Action Plan, announced by the Government in July 2010, required Ofcom to publish an annual report on the availability and uptake of digital radio services. We published our first annual Digital Progress Report for radio in July 2010.

CO-REGULATORS

Ofcom shares regulatory responsibilities in certain areas with other regulators. Ofcom handed over responsibility for handling complaints relating to editorial content of UK-based video on demand (VoD) services to its co-regulatory partner the Authority for Television on Demand (ATVOD), formerly the Association for Television on Demand. Ofcom designated ATVOD as co-regulator for VoD editorial content on 18 March 2010. Ofcom designated the Advertising Standards Authority (ASA) as the appropriate regulatory authority in respect of advertising on video-on-demand services notified to ATVOD.



PhonepayPlus is another regulatory body that works with the industry and enforces a code of practice for premium rate services. It carries out the day-to-day regulation of premium rate services, which enable consumers to purchase goods and services by charging the cost to their phone bills and pre-pay accounts.



OUR EMPLOYEES

OFCOM'S MISSION AND VALUES

Board members and Ofcom colleagues have a shared commitment to Ofcom's mission and values and undertake the organisation's work by reference to these core values. Colleagues across the organisation were instrumental in developing the six values that reflect our desire to work in an open, effective and people-driven way.

We strive to be dynamic, responsive and commercially aware: incisive thinking, rigorous evidence-based analysis and engagement with stakeholders are key to our effectiveness as an organisation. The Ofcom 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.

ORGANISATIONAL RESTRUCTURING

Over four years to 2014/15 Ofcom will reduce its total budget by 28.2 per cent in real terms. The majority of the cuts will be made in 2011/12 in a drive to reduce uncertainty and reshape and refocus the organisation swiftly, made possible by starting our internal spending review early.

The savings were made through a combination of efficiencies, a reduction in staff costs, streamlining projects and governance and ceasing some activities altogether. It has resulted in some difficult decisions, with around 170 roles lost, with colleagues leaving through redundancy, and a new internal structure put in place. Our Chief Executive's report on page 9 explains this in further detail.

COLLEAGUE INVOLVEMENT AND CONSULTATION

Colleague involvement is actively encouraged as part of our day-to-day processes. We inform and consult 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.

We also carry out an annual survey in which colleagues have the opportunity to contribute their views on a range of topics. Since 2005, survey results have shown improvements in almost all areas. In 2010 we saw continued improvements over 2009 in a number of areas, including decision-making, prioritisation, performance evaluation and equality.

However, we also saw a slight decline in scores in some areas, including communications, career development and reward. The survey was carried out in April, shortly before the general election, and the results may have been indicative of a degree of uncertainty felt by colleagues at that time. The results may also have reflected the pay freeze that was in place across the organisation during 2010/11, which was the second successive year that pay levels were frozen.

EMPLOYMENT POLICIES, PERFORMANCE DEVELOPMENT AND PUBLIC SECTOR DUTIES

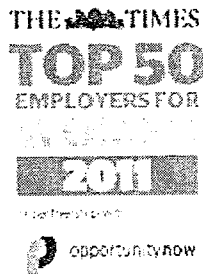
We are committed to ensuring that all colleagues are treated fairly, with dignity and respect. The full suite of HR policies has been reviewed to ensure that they are up-to-date and consistent with our organisational values, as well as the requirements of employment law.

BRITAIN'S TOP EMPLOYERS FOR WOMEN AND OTHER AWARDS

Ofcom was selected in The Times Top 50 Employers for Women in 2011. In 2010, Sara Salim, an engineer in Ofcom's spectrum team, received a merit award for Young Woman Engineer of the Year. Ofcom's inclusion was based both on our initiatives promoting equality and diversity, and through providing case studies from within Ofcom. This recognises the UK's best female engineers under the age of 30 and is organised by the Institute of Engineering and Technology. We also improved our score in the Stonewall Workplace Equality Index 2011.

THE TIMES TOP 50 EMPLOYERS FOR WOMEN

STONEWALL WORKPLACE EQUALITY INDEX

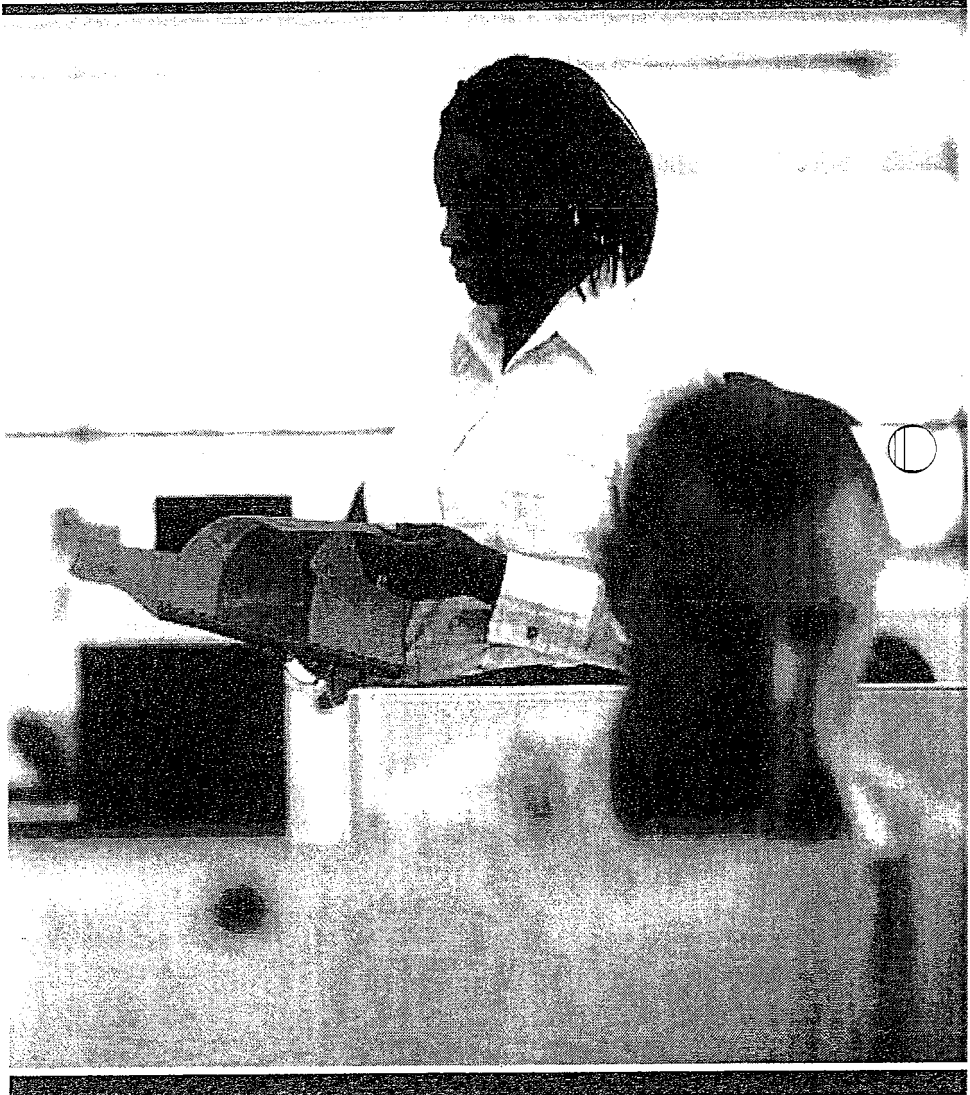


The quality and commitment of our people are key to our ability to fulfil our regulatory duties. To help us recruit and develop the individuals we need for Ofcom to function effectively, we have an organisation-wide set of skills and competencies.

OFCOM'S COMMITMENT TO EQUALITY, DIVERSITY AND HUMAN RIGHTS

At Ofcom we are determined to do what we can to promote equality and diversity inside our organisation, and our Single Equality Scheme (SES) sits at the heart of this. In the past year we have worked hard to implement the actions we have committed to in the Scheme.

We have ensured that our research has an equality element and our recruitment process seeks to improve the diversity of our colleagues. Improvements have been made to our website and publications. We have also made progress in the communications sector as a whole. We have taken positive steps to achieve our equality objectives, but there is still more work to do. Our revised Single Equality Scheme, which will include considerations of the Equality Act 2010, is due to be published in summer 2011.



CORPORATE RESPONSIBILITY AND SUSTAINABILITY

CORPORATE RESPONSIBILITY

Ofcom is committed to ensuring that we are not only a responsible employer towards our colleagues, but also that we manage our impact on the wider community. Our Corporate Responsibility purposes are to:

- treat all colleagues with dignity and respect in an inclusive and fair working environment;

- reduce our carbon footprint, provide value for money and ensure Ofcom's practices are environmentally sustainable; and

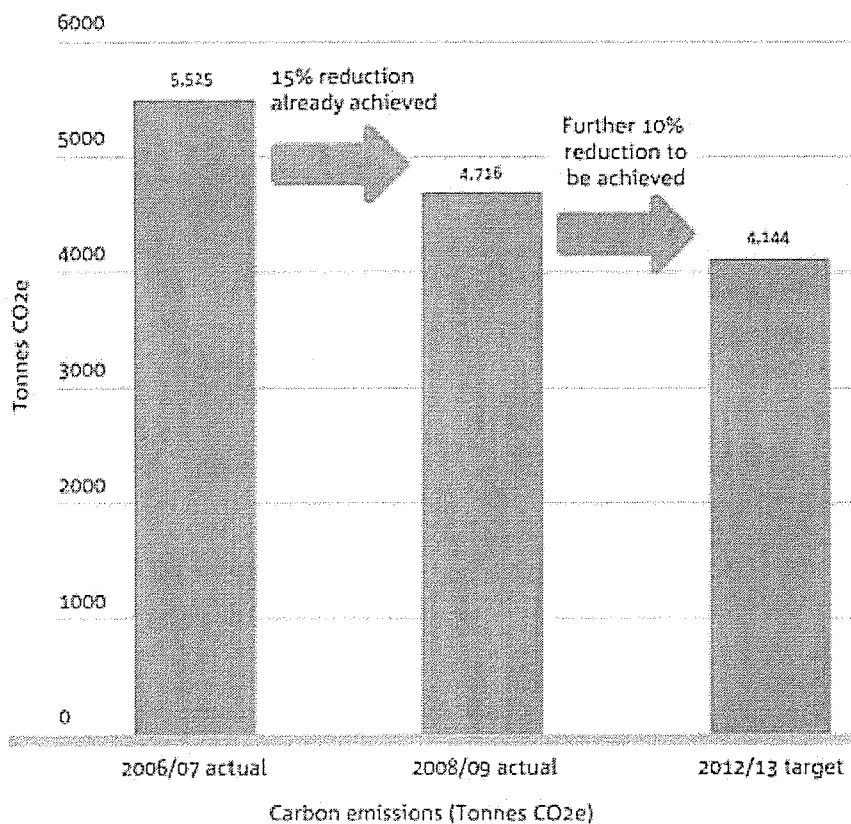
- engage, inspire and develop colleagues while proactively seeking to support our local community.

As highlighted above, we have made good progress in achieving the objectives we set ourselves in our Single Equality Scheme; we have

ensured that our research has an equality element and we have made improvements to the accessibility of our website and publications.

We run a popular reading mentoring scheme with a local primary school in Southwark, giving colleagues the opportunity to coach young children to improve their literacy skills. We also work with Career Academies UK, mentoring 16-17 year old students and helping them prepare for corporate life. In 2010 we hosted three interns from the Southwark area for a six-week period.

FIGURE 12. OFCOM'S OVERALL CARBON EMISSIONS



REDUCING OUR CARBON FOOTPRINT

Following an initial carbon audit in 2007, Ofcom committed to reducing its internal carbon emissions by 25 per cent by 2012/13. A second carbon audit in 2009 showed that Ofcom has already achieved a 15 per cent reduction, primarily due to substantial reductions in energy use (see Figure 12). Ofcom has developed a programme of work to meet the remaining 10 per cent of the target and to ensure that our operations adhere to environmental best practice. Ofcom's commitment to carbon reduction was recognised by the attainment of Carbon Trust Standard certification in 2009 for our London office.

OPERATING AND FINANCIAL REVIEW

During this financial year a rigorous and comprehensive review of our cost base was completed. The aim was to identify significant expenditure savings, while continuing to fulfil our strategic purposes and delivering high quality, effective and targeted regulation.

Our review allowed us to provide a response to the Government's spending settlement for the coming four years and immediately commence the implementation of our proposals.

As a result of our early planning and action we have made substantial cost savings in this financial year and, together with our reduced budget for 2011/12, are able to significantly reduce fees to stakeholders.

FINANCIAL PERFORMANCE

Ofcom has made savings of £17.2m against its budget for the year to 31 March 2011, delivering an actual operating outturn of £125.3m. This is set out more fully within the Operating Results section on this page.

For 2011/12 Ofcom has set a budget of £115.8m which reflects a 22.5 per cent real terms reduction in the cost of regulation against the 2010/11 budget.

In addition, Ofcom has invoiced and collected a total of £187.2m 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.

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 (Department for Culture, Media and Sport from 2011/12);

- funding to cover costs for clearing spectrum as part of the 800 MHz and 2.6 GHz project, from the Department for Business, Innovation and Skills (Department for Culture, Media and Sport from 2011/12); and

- grant-in-aid funding to cover the 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.

Grant-in-aid funding previously received from BIS will be received from DCMS from 1 April 2011.

IFRS

The financial statements have been prepared in accordance with IFRS as adopted by the EU. The transition date for the adoption of IFRS was 1 April 2008.

OPERATING RESULTS

As a consequence of the early action taken following the completion of the comprehensive review of our expenditure, Ofcom made a saving in 2010/11 of £17.2m against its operating budget of £142.5m.

SECTION B

OPERATING AND FINANCIAL REVIEW

This is as a result of a pay freeze across the organisation for the second consecutive year, savings through facilities management, an early focus on prioritising market research, technology research and professional services expenditure and proactively managing vacancies and the use of temporary resources during our expenditure review process.

Other savings against the 2010/11 budget result from the change in responsibilities for the delivery of Digital Participation and delays to the implementation of measures in the Digital Economy Act.

As a result of the reduction in the number of staff, additional office space has also been let, providing further cost savings to come in 2011/12.

During 2010/11 work has been undertaken in preparation for the transfer of responsibility for the regulation of postal services from Postcomm to Ofcom via the Postal Services Act 2011. The costs of this preparatory work in 2010/11 totals £0.4m and has been funded under agreement by BIS. These transition costs will be recovered in full by Ofcom from postal services stakeholders.

Note 2 of Section D 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 £125.3m. The note also reconciles income on the same basis and presents Ofcom's actual operating outturn and income for 2010/11 by sector.

OPERATING INCOME

Ofcom's operating income was £144.2m in 2010/11 (2009/10: £132.7m). Significant changes from the previous year include:

- An increase of £14.8m in spectrum clearance and award grant-in-aid claims as a result of the commencement of the project to clear 800 MHz and 2.6 GHz spectrum bands for the competitive provision of next generation wireless broadband services across the UK;
- A decrease of £2.9m in the regulatory charges to the network and services sector. In part the reduction can be attributed to an overall reduction to the deficit repair payments made to Ofcom's inherited defined benefit (DB) pension plans. More specifically, there was comparatively less work carried out this year on promoting effective competition in the fixed and mobile telecoms market and understanding network capabilities, but this will have been partially offset by work on the UK's communications infrastructure;
- A decrease of £3.3m in the regulatory charges to the broadcasting sector. In addition to the reduced pension deficit repair payments made in 2010/11, this was due to reduced activity levels on content regulation and relatively less work to support the digital switchover. The Pay TV Market study also completed in 2009/10 although further costs were incurred in 2010/11 to defend the resulting statements from the study;
- An increase of £1.3m in spectrum management grant-in-aid, largely as a consequence of the one-off costs of the transition to Ofcom's newly appointed outsourced information, communications and technology (ICT) provider. This will yield future savings in the order of £1m per annum;
- An increase of £1.6m in other activities, primarily as a result of the work carried out on online copyright infringement required by the Digital Economy Bill; and
- Ofcom received lower interest on bank balances during 2010/11 totalling £0.2m (2009/10: £0.3m). 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 is presented on three separate lines to provide greater transparency by separately differentiating costs of work relating to spectrum clearance and awards from core Ofcom operating costs. A similar approach has been adopted regarding operating costs in Note 6 of the financial statements.

A significant increase in cost in 2010/11 relates to spectrum clearance and awards, which is an additional responsibility, outside of our core operating budget. Costs increased by £14.6m to £17.8m (2009/10 £3.2m). The increase is due to the commencement of grant expenditure relating to the clearance of the 800 MHz and 2.6 GHz spectrum bands and related Ofcom expenditure of £6.0m.

Other operating costs relating to Ofcom's core responsibilities fell in 2010/11 by £3.5m to £52.7m (2009/10: £56.2m). As a result of the early implementation of proposals following our expenditure review, the key drivers for the savings were:

- Reduced spend on technological research and spectrum efficiency projects, due to reprioritisation and procurement efficiencies;
- Reduction in spend on professional fees as a result of re-scoping and prioritising a number of projects and further procurement efficiencies through the use of consultancy frameworks; and

- Reduction in administration and office costs, professional development, corporate subscriptions, telephony and insurance. In addition, as a consequence of making further progress in our digital approach to printing and reference materials, we have been able to reduce costs and our carbon footprint.

Staff costs include the cost of restructuring in the year of £6.1m, of which £5.4m relates specifically to our expenditure review project. The number of roles within Ofcom has been significantly reduced through the expenditure review process, by around 170, and further savings will be delivered and passed on to stakeholders in the future periods.

Underlying staff costs have fallen materially in the year as a result of reducing our headcount following the completion of the expenditure review project and management of vacancies throughout the year.

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 £9.2m (2009/10: £11.0m). 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.

2011/12 TARIFFS

On 31 March 2011, Ofcom published the Tariff Tables for 2011/12, which were based on an estimated operating expenditure outturn for 2010/11 of £127.6m. A total of £14.9m, the difference between the original budget of £142.5m and the estimated operating expenditure outturn, is already being passed back to stakeholders in 2011/12 as part of the current regulatory tariffs, or in reduced grant-in-aid claims.

Ofcom's budget for 2011/12 is £115.8m. 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 42.3 per cent in real terms for the TV sector;
- an average decrease of 36.2 per cent in real terms for the radio sector; and
- an average decrease of 32.5 per cent in real terms for network and service operators.

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. As at 31 March 2011, over 85 per cent of Ofcom colleagues are employed on terms with access to a stakeholder pension plan. A number of colleagues from the legacy regulators are provided with membership of a defined benefit pension scheme.

Those colleagues who joined Ofcom from the legacy regulators and who elected to retain membership of a defined benefit pension scheme, may

participate in one of two such schemes operated by Ofcom; the Ofcom Defined Benefit Plan and the Ofcom (Former ITC) Pension Plan. Both of these plans are closed to new entrants. Notes 1L and 22 in Section D provide further detail.

Following consultation with Plan members, Ofcom decided to close both Plans to future accruals from 1 June 2011 and informed members of their intention to do so in February 2011. All colleagues who are currently in a defined benefit pension plan will cease being active members of that plan on 31 May 2011. With effect from 1 June 2011 these colleagues will have access to the Ofcom Stakeholder Plan.

The latest actuarial valuations for both schemes as at 31 March 2009 highlighted a combined funding deficit of £21.9m. Since the finalisation of the actuarial valuations in 2010 a total of £13.2m in respect of deficit repair payments has been made to the defined benefit plans, in accordance with the respective schedules of contributions. The financial statements show an asset of £21.3m, in part 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 and the contributions made by Ofcom.

Ofcom has made cash contributions to the Ofcom defined benefit plans 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 £6.8m, together with £9.2m transferred from the

Feeder 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 2010/11, Ofcom invoiced and collected £187.2m (2009/10: £195.9m). These funds have been passed on 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 2011, invoices in respect of spectrum fees amounting to £47.1m (2009/10: £70.0m) remained unpaid. A significant proportion of these amounts are due by way of instalment payments.

SPECTRUM CLEARANCE AND AWARDS PROGRAMME (SCAP)

During 2010/11, expenditure on the Spectrum Clearance and Awards Programme (SCAP) has commenced. The objectives of SCAP are to make the 800 MHz and 2.6 MHz spectrum bands available, by clearing existing users and holding an auction for new licences for the competitive provision of next generation wireless broadband across the whole of the UK.

Payments to existing users are made through compensation grants and funded by BIS (DCMS from 1 April 2011) with approval from HM Treasury. Payments are made by Ofcom to applicants and in the year 2010/11 totalled £11.8m.

Additionally, a further £6.0m of Ofcom costs specifically related to SCAP were incurred.

SCAP represents a significant programme of work for Ofcom and will include co-ordination of multiple, complex projects to a challenging timetable including dependencies and risks across many disparate stakeholders including the Government. The programme will run through to 2014/15. In order to provide transparency, costs relating to this programme of work have been separated out from Ofcom's core responsibilities in the financial statements in Section D.

LONDON 2012 OLYMPIC GAMES AND PARALYMPIC GAMES

The 2010/11 accounts include the second 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 that 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 2010/11, the updated spectrum plan for wireless communications, setting out how the exceptional needs are to be managed was published. The final version of this plan will be published in early 2012. Spectrum in the 2.6 GHz band has been reserved

for wireless cameras at the 2012 Games and an automated licensing system, which optimises the way scarce spectrum is assigned to users, has also been built and tested.

Our large-scale trial events began in the summer of 2010, and integrated cross-organisational test events will occur in the summer of 2011.

INVESTMENTS IN FIXED ASSETS

During the year Ofcom signed a contract with a new third party supplier for the provision of outsourced ICT services. This service commenced in April 2011. The capitalised costs of the transition from the previous provider, for both hardware and the related project management, are reflected within tangible assets as hardware at year end.

The outsourced ICT arrangements with the new provider will deliver savings in excess of £1m per annum over the life of the contract.

Assets under construction as at 31 March 2011 amounted to £2.6m (£1.7m 2009/10) and includes the spectrum monitoring solution being developed in preparation for the London 2012 Olympic Games and Paralympic Games.

PAYMENTS OF SUPPLIERS

During the year the Government's target for payments to suppliers, not in dispute, was reduced from 10 days to 5 days. In addition to small and medium suppliers, Ofcom also includes large suppliers in this scheme to encourage them to pay their small business suppliers within the shorter timeframe.

For 2010/11 Ofcom achieved on average a performance of 83.05 per cent against the new five-day target. For comparison purposes, 2010/11 payment performance against the ten-day target was 98.23 per cent (2009/10: 97.7 per cent).

SECTION C – DIRECTORS' REPORT AND CORPORATE GOVERNANCE

FOREWORD

REPORT OF THE BOARD

The Board presents its Report and the audited financial statements for the year ended 31 March 2011.

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 2010 to 31 March 2011.

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, and other legislation such as the Broadcasting Act 1996 and the Wireless Telegraphy Act 2006, to regulate and license television, radio, the use of the radio spectrum and telecommunications in accordance with the duties imposed upon it under the 2003 Act and other legislation.

OPERATING AND FINANCIAL REVIEW

The Chairman's Message on pages 6 and 7, the Chief Executive's Report on pages 8 to 10 and the Operating and Financial Review on pages 43 to 46 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 65 to 95.

EXTERNAL AUDITORS

The Comptroller and Auditor General, whose staff is the National Audit Office (NAO), is appointed as Ofcom's external auditor under the Office of Communications Act 2002. The cost of the main statutory audit for 2010/11 was £82,000, and £16,000 for the Section 400 accounts audit with a further £3,000 for the Whole of Government Accounts audit. 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 48 and 49. Details of Members' remuneration are set out on pages 60 to 64.

MEMBERS' INTERESTS

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

POST BALANCE SHEET EVENTS

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

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 547 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 90 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

29 June, 2011

GOVERNANCE

The Ofcom Board

COLETTE BOWE



Colette Bowe became Non-Executive Chairman of Ofcom in March 2009. She is Chairman of Ofcom's Nominations Committee and is a Member of Ofcom's Remuneration and Risk and Audit Committees. She attended all 15 Board meetings held in the year. She trained as an economist and has held a number of senior roles in the public and private sectors. She chaired Ofcom's Consumer Panel from its inception in 2003 to December 2007. She is currently the Chairman of Electra Private Equity plc, a Board Member of Morgan Stanley International, London and Continental Railways, Axa Deutschland GmbH, The UK Statistics Authority and Camden People's Theatre, a Governor of Bancroft's School and a trustee of the Tablet Trust.

PHILIP GRAF CBE

Philip Graf is the Non-Executive Deputy Chairman of Ofcom. He is Chairman of Ofcom's Content Board, Radio Licensing 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 attended all 15 Board meetings held in the year. 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 Chairman of the Press Standards Board of Finance and of the Broadband Stakeholder Group. He is currently Chairman of the Gambling Commission, an associate of Praesta Partners LLP and a Trustee of the homeless charity, Crisis.



ED RICHARDS

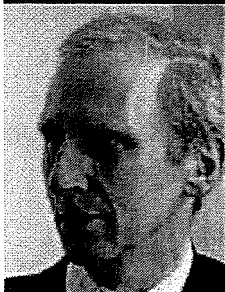


Ed Richards is the Chief Executive of Ofcom. Previously he was Chief Operating Officer of Ofcom, responsible for Strategy, Market Research, Finance, HR and other functions. Strategy responsibilities included Ofcom's strategic thinking on the communications sector and covering economic issues and consumer policy. He attended all 15 Board meetings held in the year. Prior to joining Ofcom, he was Senior Policy Advisor to the Prime Minister (Tony Blair) for media, telecoms, the internet and e gov't 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 Thames Water Utilities Limited and Donmar Warehouse, a Trustee 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 a Member of the Content Board, the Nominations Committee and the Remuneration Committee. She attended all 15 Board meetings held in the year. She is the Chair of the British Transport Police Authority, a Member of the Board of Newham Primary Care Trust and a Trustee of the Peabody Trust. She was appointed Chairman of Postcomm from 16 January 2011. Previously she spent 25 years with BT, followed by being Senior Vice President at ICO Global Communications. She has been a member of the Strategy Board of the Cabinet Office and has held several non-executive appointments including the Strategic Rail Authority, the Sector Skills Development Agency, Channel 4 TV, the Prisons Board, Focus and a member of the governing body of South Bank University. She has also been Commissioner for Judicial Appointments, Chair of Postwatch and on the Board of Consumer Focus.



TIM GARDAM

Tim Gardam is a Non-Executive Member of Ofcom. He is a Member of the Content Board, Chairman of the Nations Committee and a Member of the DTT Allocation Committee, the Nominations Committee and Remuneration Committee. He attended all 15 Board meetings held in the year. He has been the Principal of St Anne's College, Oxford since 2004. He is Chairman of the University Undergraduate Admissions Executive. He had a 25-year career in broadcasting starting at the BBC. He was a part of the first senior management team at Five and was Director of Programmes at Channel Four. 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 2005-7. He established, and is now Chairman 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 Chairman of Ofcom's Risk and Audit Committee and a Member of Ofcom's Remuneration and Nominations Committees. He attended 12 of the 15 Board meetings held in the year. He has held a number of directorships, and is currently Chairman of Pace plc, Volex Group plc, WYG plc and JJB Sports plc; he is also senior independent director of Betfair Group plc. He acts as a special advisor to General Atlantic, the US based private equity firm. He was appointed a Commissioner of Postcomm in December 2010. Previously he was Chairman and CEO of Carrier1 International SA, and before that Executive Director & Chief Executive, Global Operations of Cable & Wireless plc.

**NORMAN BLACKWELL**

Norman Blackwell is a Non-Executive Member of Ofcom and a Member of the Ofcom Nations, Nominations and Remuneration Committees. He attended 14 out of the 15 Board meetings held in the year. He is Chairman of the Board at Interserve plc, Senior Independent Director at Standard Life plc, non-executive director of Halma plc, Board member of the Centre for Policy Studies and a Commissioner of Postcomm. From 1995 to 1997 he was head of 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 a seat on the Delegated Powers and Regulatory Reform Committee.

STUART MCINTOSH

Stuart McIntosh joined Ofcom as Competition Partner in January 2008. He attended all 15 Board meetings held in the year. He was appointed a Commissioner of Postcomm in December 2010. Prior to joining Ofcom, he was a Strategy partner in IBM's communications practice in the US. Previously, he held senior positions with PwC, where he led PwC's Telecoms Consulting Practice (in the UK and the US), and with Adventis, a boutique strategy consultancy. He began his career as an economist in the UK's Government Economic Service. He has also worked for BT for a period of four years, where he held the position of Head of Business Economics.

**JILL AINSCOUGH**

Jill Ainscough joined Ofcom in August 2007 as Chief Operating Officer and was appointed to the Board on 19 October 2010. She attended 6 out of 7 Board meetings held after her appointment. Prior to joining Ofcom she was Managing Director of Easynet – a company she first joined as Director of Strategy in 2001. In that role she oversaw new market entry into corporate data networks and secured a three-year sponsorship of the British Olympic Association. Previous main roles include Head of Marketing Development at NTL; Financial Planning and Analysis Manager for Barclaycard (1995-97); Business Planner for the Cambridge Cable Group (1994-95) and Senior Financial Analyst for the Granada Group (1990-92). She is also on the Board of Sport England.

Peter Philips resigned from Ofcom and the Board with effect from 4 October 2010

THE OFCOM BOARD

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 2010 to 31 March 2011. To this end, Ofcom will continue to adopt the principles of the code where it is either capable of doing so, or it is appropriate to do so, given its status as an independent statutory corporation.

BOARD MEMBERS' REMUNERATION

Details of Members' remuneration are set out on pages 60 to 64.

BOARD

The Ofcom Board comprises both Executive and Non-Executive Members. The Chairman and Non-Executive Members of the Ofcom Board were 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 48 and 49. 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.

The Board carried out an internal evaluation of its performance and that of its committees in spring – summer 2010.

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 page 11. The Content Board held nine meetings during the year. The Members of the Content Board are:

- Philip Graf CBE (Chairman)
- Millie Banerjee CBE
- Tim Gardam
- Anthony Lilley OBE
- Dr. David Levy – appointed 1 May 2011
- Iseabail Mactaggart – appointed 1 May 2011
- Glyn Mathias – appointed 1 May 2011
- Dr. Paul Moore
- Joyce Taylor
- Janey Walker – appointed May 2011
- Christopher Woolard – appointed 2 February 2011

Adam Singer (Deputy Chairman), Kath Worrall, Sue Balsom and Pam Giddy retired on 30 June 2010 and Richard Ayre retired on 31 July 2010. Stewart Purvis resigned as Executive Member on 30 July 2010 and Chris Banatvala left on 31 March 2011.

Christopher Woolard is currently the only Executive Member of the Content Board.

Members of the Content Board are also members of the Radio Licensing Committee, the Election Committee and, during the period under review, were members of the Broadcasting Sanctions Committee and the Broadcasting Review Committee¹².

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. It met 14 times

during the year. Its policy-making responsibilities are limited to management policy only. The members are:

- Ed Richards (Chief Executive) – Chairman
- Jill Ainscough (Chief Operating Officer)
- Stuart McIntosh (Group Director, Competition)
- H. Nwana (Group Director, Spectrum Policy)
- Claudio Pollack (Group Director, Consumer) – appointed 7 December 2010
- Steve Unger (Group Director, Strategy, Chief Economist and Technology) – appointed 7 December 2010
- Polly Weitzman (General Counsel)
- Christopher Woolard (Group Director, Content, International and Regulatory Development)

Peter Phillips resigned on 4 October 2010 and Stewart Purvis resigned on 30 July 2010. 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 (Chairman)
- Peter Teague
- Philip Graf CBE
- 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.

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;
- continually review the scope and results of both internal and external audits; and
- approve the financial authority framework.

¹² In June 2011, Ofcom published new procedures for handling broadcasting complaints, investigations and sanctions. The new procedures removed the Broadcasting Sanctions Committee and the Broadcasting Review Committee. However, Content Board members continue to play a role in content and standards decision making, and sanctions. For further information, please see: <http://stakeholders.ofcom.org.uk/broadcasting/guidance/complaints-sanctions>

The internal audit function is carried out independently of 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.

The Risk and Audit Committee met four 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:

- Philip Graf CBE (Chairman)
- Millie Banerjee CBE
- Norman Blackwell
- Colette Bowe
- Tim Gardam
- Mike McTighe

Millie Banerjee resigned as Chairman on 31 December 2010 and was succeeded by Philip Graf. 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 Communications 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.

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

The remuneration of Non-Executive Members of the Ofcom Board 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 9 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 60 to 64 sets out Ofcom's application of the relevant principles of the UK Corporate Governance Code.

THE NOMINATIONS COMMITTEE

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

- Colette Bowe (Chairman)
- Millie Banerjee CBE
- Tim Gardam
- Philip Graf CBE
- Mike McTighe
- Norman Blackwell

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 met three times during the year.

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.

The Committees have a permanent Chairman who, during the period, was Philip Graf for the Broadcasting Sanctions Committee and Election Committee. The Broadcasting Review Committee was chaired by Richard Ayre until 31 July 2010 and thereafter by Joyce Taylor. Six cases were considered by the Broadcasting Review Committee in this period and the Broadcasting Sanctions Committee applied sanctions in three cases. Further details of this work are given on page 101.

THE 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 one permanent Non-Executive Member of the Content Board, Paul Moore (since 1 July 2010) and three Ofcom colleagues. Joyce Taylor and Pam Giddy were Non-Executive Members until 30 June 2010. The Committee met nine times during the year.

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 (Chairman), Richard Hilton and Thomas Prag.

NATIONS COMMITTEE

The Nations Committee 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 Group Director, Content, International and Regulatory Development, are invited to attend Nations Committee meetings. The members of the Nations Committee are:

- Tim Gardam (Chairman)
- Norman Blackwell
- Professor William Dutton
- Professor Wallace Ewart, OBE
- Professor Philip Schlesinger
- Glyn Mathias – appointed 1 March 2011

Professor Tony Davies retired on 28 February 2011.

SPECTRUM CLEARANCE FINANCE COMMITTEE

The Board has delegated to this 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: grants and the terms and conditions require the consent of HM Treasury. The Chairman and Deputy Chairman of the Committee are external independent Non-Executive Members. The Members are:

- Sir David Brown (Chairman)
- Peter Teague (Deputy Chairman)
- Peter Davies (from March 2011)
- H. Nwana
- Kate Stross

Professor William Webb left on 31 January 2011. The Committee met 14 times in the year, considered 49 applications for a DTT clearance grant, all of which were given in-principle consent, and 18 applications for a grant relating to PMSE clearance; of which seven were given in-principle consent. HMT confirmed the decision of the Committee in all cases.

This Committee also took an in-principle decision, subsequently approved by HM Treasury, to make grants to eligible licensees and unlicensed hirers who had registered equipment by the 31 December 2010 deadline, subject to their providing the evidence required to verify their claims.

The 1,241 eligible licensees who registered represented two-thirds of those who held a licence in the year to 2 February 2009. The value of these claims, plus a small number of approved exceptional circumstances cases, is expected to be no more than the budget of £45m.

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 independent experts, including representatives from Scotland, Wales, Northern Ireland and England with experience from many different fields.

- Bob Warner CBE (Chairman)
- Fiona Ballantyne
- Colin Browne
- Roger Darlington
- Dr Maureen Edmondson OBE

Anna Bradley retired as Chairman on 9 April 2011 and was succeeded by Bob Warner. Leen Petrie, Louisa Bolch and Dr Damian Tambini retired on 27 October 2010. Kim Brook, although not a formal member, attends, and participates in, all meetings of the Panel. The Communications Consumer Panel's annual report, covering its impact in 2010/11 and priorities for 2011/12, can be found 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 met six times in the year. The Members of OSAB are:

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

Sir David Brown retired as Chairman on 31 May 2010 and was succeeded by David Meyer. Professor Barry Evans and Professor Will Stewart retired on 31 May 2010 and Professor Tommaso Valletti retired on 31 May 2011. Professor William Webb became a non-executive member on 1 February after leaving Ofcom as a full-time employee.

OSAB's annual report, covering its activities during the year, will be published 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 Advisory Committee on Older and Disabled People (ACOD) met four times during the year and undertakes specific pieces of work in sub-groups. The Members of ACOD are:

- Jo Connell (Chairman) – appointed 1 April 2010
- Liz Atkins

- Suneel Shivdasani
- Dr. Maurice Mulvenna

David Sindall resigned on 8 October 2010. Dr Laura Muir, Robert Peckford and Nicholas Young retired on 31 March 2011 and Simon Cramp on 30 April 2011.

ACOD 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. The Committee provided guidance to Ofcom on a range of topics including the Relay Services Review, Access Services Review and Ofcom's Draft Annual Plan for 2011/12. In the autumn ACOD published research into the products and services which might benefit older and disabled people across super-fast broadband networks. The report was supported by a launch event for stakeholders and the findings have also been highlighted at conferences held by Age UK and the LSE, among others.

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. Particular issues that the Committees have advised on during the last year are: continuing issues around broadband roll-out and speeds specifically in more rural areas; mobile availability, competition, 'not-spots' and roaming; the proposed auction of 800 MHz and 2.6 GHz spectrum; local, national and regional television; Ofcom's research in each Nation. Each Committee met five times during the year.

The membership of each Committee is as follows:

ENGLISH REGIONS

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

Dharmash Mistry resigned from the Committee on 30 September 2010.

SCOTLAND

- Professor Philip Schlesinger (Chairman)
- Thomas Prag
- Laura Alexander
- Dr Franck Chevalier
- Mairi Mcleod
- Iseabail Mactaggart – appointed 1 May 2011

Mike Shaw, Dr Andrew Muir and Andrew Jones retired on 28 February 2011 and Andrew Anderson retired on 31 March 2011.

NORTHERN IRELAND

- Professor Wallace Ewart OBE (Chairman)
- Isolde Goggin
- Lesley Holmes
- Libby Kinney
- Dr Paul Moore – appointed 1 May 2011
- Ben Preston

Dr Leslie Orr, Paul Cavanagh, Dr Sally Montgomery, Billy McClean and Maire Killoran retired on 28 February 2011.

WALES

- Glyn Mathias (Chairman)
- Julie Barton
- Kim Brook – appointed 1 May 2011
- Ian Clarke
- John Davies
- Simon Gibson OBE

Professor Tony Davies retired on 28 February 2011 and was succeeded as Chairman from that date by Glyn Mathias. Nick Bennett and Mark Elliott retired on 28 February 2011.

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 2006 and the United Kingdom's 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 2006. 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 which delegates 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 that proper accounting records are maintained and must sign the accounts.

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

STATEMENT ON INTERNAL CONTROL

SCOPE OF RESPONSIBILITY

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Ofcom's policies, aims and objectives, while safeguarding the public funds and 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.

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
- embed 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 31 March 2011 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

CAPACITY TO HANDLE RISK

Ofcom continues to demonstrate strong leadership of the management of risk through the work of the Board and its sub-committees. In providing support to the Board and Executive Committee, the Operations Board and the 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 risk management capability, Ofcom regularly conducts a formal review of its risk management framework. This review includes an exercise to benchmark the framework against the HM Treasury's Risk Management Assessment Framework (RMAF). The 2009 review highlighted a number of recommendations which were implemented during 2010/11. The review, conducted in March 2011 and endorsed by the Executive Committee, reflected the improvements in the risk management framework and also made a number of further recommendations which will form the foundations of the improvement programme for 2011/12. As part of the internal audit annual plan, KPMG acknowledged the progress that had been made to further embed risk management within the organisation and supported the conclusions and findings of the 2010/11 Risk Review.

Ofcom's risk management policy and procedures clearly defines our approach to risk management and our objectives and processes as well as identifying the specific risk management roles, accountabilities and responsibilities across the organisation. It also provides clear guidance to practitioners. The policy and procedures were reviewed and updated during the year and re-launched as an integral part of an initiative to improve project efficiency.

Senior management are responsible for ensuring that colleagues have the appropriate skill levels to identify, assess and manage risk 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 and Insurance Manager works across all areas of the organisation to promote and integrate the risk management process and to support and inform colleagues.

A Director of Planning and Performance was appointed to provide oversight and coordination of Ofcom's integrated operating plan and to provide a central governance point for managing cross-Ofcom dependencies, resource and funding. The role is also responsible for implementing and managing a consistent performance measurement framework across the organisation.

THE RISK AND CONTROL FRAMEWORK

In early 2010, Ofcom initiated a programme to identify savings in response to the challenges set by the prevailing economic climate and the pressure on public sector spending. This programme was developed in association with a plan to re-structure the organisation to reflect our emerging strategic priorities. To ensure appropriate control and governance were in place, the Board was engaged throughout the process and regular reports were provided to, and challenge received from, the Executive Committee and the Risk and Audit Committee. Additionally, the Joint Colleague Forum, a group made up of members of the Ofcom Colleague Forum and the Partner Unions, was engaged at the earliest opportunity. Recognising the importance of ensuring that Ofcom retained sufficient capacity and capability to deliver its future plan of work and maintain an appropriate control environment, a specific risk exercise was undertaken as part of the 2011/12 budgeting and planning round.

In October 2010, the Government published the Postal Services Bill, which provides for the transfer of Postcomm's regulatory responsibility for the postal sector to Ofcom. Postcomm and Ofcom have agreed to work closely together, as far as practicable, in order to ensure a smooth transition with minimal disruption for stakeholders, consumers and staff while progressing ongoing work to change the current regulatory framework. To aid this transition, Millie Banerjee has been appointed as the Chairman of Postcomm. Additionally, several other Ofcom Board members have been appointed as commissioners to the Board of Postcomm.

During the year the Spectrum Clearance and Awards Programme (SCAP) was established to bring together all the projects associated with the clearance and award of the 800 MHz and 2.6 GHz spectrum bands under a single programme management structure. A dedicated Programme Management Office has been established and is responsible for developing and maintaining comprehensive internal and external governance structures. A Programme Director, Programme Manager and a Financial Controller have been appointed. To ensure that appropriate financial controls are in place and to consider proposals for spectrum clearance grants, the Ofcom Board has delegated authority to the Spectrum Clearance Finance Committee. The Committee is chaired by a non-executive. An Independent review of the programme has been completed by the OGC.

RISK MANAGEMENT FRAMEWORK

Key elements of Ofcom's risk management framework include:

- the risk management policy and procedures;
- monthly meetings involving the Risk and Insurance Manager and Group Directors/Senior Managers to identify, assess and review key risks;
- quarterly reporting by the Risk and Insurance Manager to the Risk & Audit Committee;
- explicit consideration of risk as part of the annual budget and planning round;
- an annual review of internal controls by the Board with the Chairman of the Risk & Audit Committee;
- assurance from specialist functions and committees that legal, security, fraud, health and safety, diversity and environmental risks are appropriately managed;

- 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; and
- the monthly provision of a management information pack to the Board and the Executive Committee, which incorporates the strategic risk register and performance indicators.

The risk management policy also identifies Ofcom's appetite for risk, which remains highly risk-averse 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. The 2010/11 risk management framework review recommended that the current risk appetite statements should be considered in the light of the strategic priorities outlined in the 2011/12 Annual Plan.

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. Group-level risks, are reviewed with the Risk and Insurance Manager on a monthly cycle and escalated to the strategic risk register where appropriate.

An enhanced performance framework was introduced during the year, initially focused on the strategic priorities and major work areas outlined in the Annual Plan. Performance reports are reviewed by the Board and Executive Committee and cover performance against intended outcomes as well as key indicators relating to value for money and internal efficiencies. Monthly financial reports covering expenditure against budget, forecast and outturn are also provided and reviewed.

SECURITY

The Security Committee meets regularly throughout the year to consider Ofcom's security arrangements. The Committee reports quarterly to both the Operations Board and 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 is now available to all colleagues. Ofcom also published an updated whistleblowing policy and developed a new counter fraud policy and fraud response plan. Counter fraud workshops have been held with key colleagues across the organisation and a formal counter fraud risk register has been established and is maintained by the Risk and Insurance Manager. In May 2010, KPMG audited Ofcom's starter and leaver processes, which resulted in a number of actions, which have now been completed to KPMG's satisfaction.

Additionally, work has been undertaken to develop a formal anti-bribery policy in response to the introduction of the Bribery Act 2010 in July 2011.

During the year, Ofcom outsourced its ICT services to Logica. The security of Ofcom's information assets was a priority during the transfer and procedures are in place to ensure the ongoing secure handling of Ofcom's information. As part of the internal audit plan, three reviews were conducted during the transition process. Initial disaster recovery tests have been completed and further tests and a complete penetration test of the systems and firewalls in the new data centres have been scheduled as part of the transition plan.

FINANCIAL CONTROLS

In addition to the developments discussed elsewhere in this statement, a number of initiatives have been implemented to further enhance Ofcom's framework of financial controls. These include:

- the implementation of an online payments solution which has contributed to the mitigation of risks associated with processing cheques;
- an improved control environment associated with a new payroll and benefits solution;
- the requirement for expenditure in excess of £20k on consultancy services to be approved by the Accountable Officer;
- a review of the existing expenses policy; and
- further development and enhancement of the management information pack to ensure management are provided with key compliance and performance information.

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, the purchase-to-pay cycle, payroll and flexible benefits, online payments and the Financial Authorities Framework.

A review of the project management and governance for the London 2012 Olympic and Paralympic Games project was also completed.

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 re-forecast of expenditure.

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. As part of the consultation process, Ofcom carries out impact assessments to consider the effect that each option under consideration may have. Executive Committee members and colleagues regularly liaise with stakeholders to discuss regulatory reform and implementation related matters in order to identify risks that will affect Ofcom's ability to achieve its statutory duties.

Ofcom continues to work closely with suppliers and partners to mitigate economic and commercial risks. A Commercial Director has been appointed, responsible for managing supplier relationships across the organisation, and a review of all significant controls is under way. The business-critical contract risk register, which monitors the financial stability of key suppliers, is reported to the Operations Board quarterly and escalated to the Executive Committee as appropriate.

CRISIS MANAGEMENT AND BUSINESS CONTINUITY

Ofcom's Crisis Management Expert Group meets monthly to manage the resilience programme, give specialist advice and test arrangements. The group now reports quarterly to the Operations Board and twice a year to the Executive Committee. A review of the existing business continuity plans has been launched following the organisational restructuring and the outsourcing of the Information and Communications Technology (ICT) services. Bomb procedures for Riverside House were updated and approved by the Executive Committee. In the light of the restructuring, a number of activities planned for 2010/11 were postponed.

The ICT team conducted several successful disaster recovery tests during the year and a small but valuable workspace disaster recovery test was held.

HEALTH AND SAFETY

The Health and Safety Committee met four times during the year and the Spectrum Engineering and Enforcement Sub-Committee met three times. The memberships of both committees are being refreshed following the restructuring. The Health and Safety Committee reports to the Operations Board twice a year. Health and safety training continues to be provided with the take up of the e-learning modules increasing to 98 per cent. Health and safety material on Ofcom's intranet has been restructured and wellness management training is being delivered to relevant managers. There were no reportable accidents during the year.

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 and 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 and 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 Executive Committee also reviews the Ofcom strategic risk register on a monthly basis.

THE RISK AND AUDIT COMMITTEE

The role of the Risk and 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, the annual risk review, quarterly reviews provided by the Risk and Insurance Manager, and from regular reports provided to the Risk and Audit Committee on risks relating to litigation, finance, security and fraud. As deemed appropriate, the Risk and Audit Committee initiates reviews of individual projects. During 2010/11 these have included the 2012 London Olympic and Paralympic Games project, the OFISS project (Ofcom's ICT sourcing project), the Expenditure Review Project and the Spectrum Clearance and Awards Programme.

RISK AND INSURANCE MANAGER

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

INTERNAL AUDIT

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

SIGNIFICANT CONTROL ISSUES

There were no significant internal control issues during the year.

Ed Richards
Chief Executive

29 June, 2011

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 and to comply with the Government Financial Reporting Manual. 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 52.

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 Group Director 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 Group Director from which the individual concerned may purchase certain benefits. All basic salaries are reviewed annually with effect from

1 July each year. No Executive Member or Group Director received an increase to basic salary in July 2010.

STANDARD BENEFITS

Each Executive Member and Group Director receives certain standard benefits; specifically life assurance, group income protection and the ability to undertake an annual health check. The total value of group income protection, life assurance and annual health checks has not been disclosed in the remuneration schedules because it is not treated by HM Revenue & Customs as a taxable emolument.

PERFORMANCE RELATED PAYMENTS

Each Executive Member and Group Director 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. This allows us to recognise the contribution of high performers in any year without raising base salary levels. No element of performance pay is pensionable. Performance pay for the

year 2009/10 was paid in 2010/11 but is included in the total remuneration figures for 2009/10 provided in the table below. Performance pay noted against individuals for the review period 1 April 2010 to 31 March 2011 has been approved by the Remuneration Committee and accrued but not paid as at the year end. In exceptional circumstances individuals may be eligible for recognition awards related to specific work programmes and projects. In 2010/11 awards were made to a number of employees to recognise the specific challenges and responsibilities those employees carried during the cost reduction programme undertaken by Ofcom.

PENSION ARRANGEMENTS

Under Ofcom's pension arrangements each Executive Member and Group Director (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 or invest in a pension scheme of their choice.

Chris Banatvala, who left Ofcom on 31 March 2011, was eligible to participate in the Ofcom Defined Benefit Pension Plan on comparable terms as applied when previously employed by the ITC.

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

GUIDANCE TO THE REMUNERATION SCHEDULES

Details of remuneration received 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 61 to 64.

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 were Executive Members of the Board, Content Board or members of the Executive Committee. Those individuals with the note '4' against their name in the schedules were in their roles for only part of 2009/10 or 2010/11. Where Executive Committee members joined during 2010/11, 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 48 to 53) 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 63 and 64.

OFCOM NON-EXECUTIVE BOARD MEMBER REMUNERATION 2010/11

Name	Guidance Note Reference	Fees 10/11	Fees 09/10
		£	£
Millie Banerjee CBE	9	53,424	59,637
Norman Blackwell +	9	42,519	24,803
Colette Bowe	1, 9	183,333	200,000
Tim Gardam	9	42,519	42,519
Philip Graf CBE	1, 9	99,099	106,578
Mike McTighe	9	42,519	42,799
		463,413	476,336

SECTION C

REMUNERATION REPORT

OFCOM NON-EXECUTIVE CONTENT BOARD MEMBER REMUNERATION 2010/11

Name	Guidance Note Reference	Fees 10/11 £	Fees 09/10 £
Richard Ayre +	8, 10	9,622	23,911
Sue Balsom +	8, 10	5,412	21,929
Pam Giddy +	8, 10	5,412	21,929
Anthony Lilley	10	18,937	21,929
Dr Paul Moore	10	18,937	21,929
Adam Singer +	8, 10	7,216	29,145
Joyce Taylor	7, 10	23,745	21,929
Kath Worrall +	8, 10	5,412	27,247
		94,693	189,948

OFCOM EXECUTIVE COMMITTEE AND EXECUTIVE CONTENT BOARD MEMBER REMUNERATION 2010/11

Name	Guidance Note Reference	Salary 10/11 £	Pension entitlement/ allowance 10/11 £	Flexible benefits allowance 10/11 £	Benefits in kind 10/11 £	Performance Pay 10/11 £	Total Remuneration 10/11 £	Total Remuneration 09/10 £
Jill Ainscough	11, 12, 13	191,586	28,738	15,000	977	12,000	248,301	271,858
Chris Banatvala	6, 11, 12, 13	121,805	37,169	15,000	651		174,625	180,858
Stuart McIntosh	11, 12, 13	230,961	34,644	15,000	1,628	12,000	294,233	294,139
H Nwana +	11, 12, 13	185,000	27,750	15,000	1,628	8,000	237,378	124,079
Peter Phillips +	5, 11, 12, 13	97,591	14,639	10,154	908		123,292	242,872
Claudio Pollack +	4, 11, 12, 13	131,500	19,725	15,000	1,628	16,000	183,853	
Stewart Purvis +	5, 11, 12, 13	63,054	9,458	5,000	519		78,031	237,849
Ed Richards	1, 2, 3, 11, 12, 13	284,963	56,993	19,955	1,628	(see Note 2)	363,539	381,713
Steve Unger +	4, 11, 12, 13	144,252	21,638	15,000	1,628	8,000	190,518	
Polly Weitzman	11, 12, 13	203,858	30,579	15,000	1,628	12,000	263,065	262,971
Christopher Woolard +	11, 12, 13	172,336	34,467	15,000	1,628	8,000	231,431	222,125
		1,826,906	315,800	155,109	14,451	76,000	2,388,266	2,218,464

As a result of the various arrivals and departures of Executives in 2009/10 and 2010/11, an annualised figure has been presented to provide a clearer comparison of total costs.

Total annualised costs for 2010/11: **£2,186,943**

Total annualised costs for 2009/10: **£2,343,008**

NOTES TO THE REMUNERATION TABLES

1. Colette Bowe, Philip Graf and Ed Richards all voluntarily reduced their fees or basic salary during the year in the context of Ofcom's budget reductions and the public sector spending review more generally.
2. Ed Richards was awarded performance pay of £15,000 for financial year 2009/10 and £15,000 for financial year 2010/11, both of which he waived.
3. In addition to the remuneration shown in the table, Ed Richards earned £42,000 in fees for services as a Non-Executive Director of Thames Water Utilities Ltd, which were paid direct to Ofcom. He did not retain any part of these fees.
4. Claudio Pollack and Steve Unger joined the Executive Committee with effect from 7 December 2010 but the remuneration shown for each of them is for the whole year as they were employees of Ofcom for the whole year.
5. Peter Phillips and Stewart Purvis both left Ofcom and the Executive Committee during the year; the remuneration shown for each of them is for that part of the year when they were employed by Ofcom.
6. Chris Banatvala left Ofcom and the Content Board with effect from 31 March 2011.
7. The fees for Joyce Taylor reflect an increase paid to her when she took on the responsibility of chairing the Broadcasting Review Committee during the year.
8. The fees for Adam Singer, Kath Worrall, Sue Balsam, Pam Giddy and Richard Ayre reflect that they were members of the Content Board for only part of the year.
9. 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 the full year 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) has been £42,519 per annum since 1 April 2008. 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 and Philip Graf who currently commit up to three days per week, and Millie Banerjee who currently commits up to 1.5 days per week (since January 2011)).
10. 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 was reduced from 1 January 2011 to £10,800 per annum from £21,649 per annum, reflecting a reduced time commitment for the Members going forward (the exception being the fee paid to Joyce Taylor as Chairman of the Broadcasting Review Committee, which was reduced to £15,600 per annum). 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, 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 took up the entitlement during the period under review.
11. Annual remuneration for the Ofcom executives (Executive Members of the Ofcom Board, Executive Members of the Content Board and Group Directors on the Executive Committee) includes basic 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). Chris Banatvala was 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 64.
12. Steve Unger and Claudio Pollack received increases to their basic salary on their promotion to Group Director. The 'benefits in kind' column reflects the cost to Ofcom of the provision of private medical care for each Executive.
13. Ofcom executives (Executive Members of the Ofcom Board, Executive Members of the Content Board and Group Directors on the Executive Committee) 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. Performance pay for the review period 1 April 2010 to 31 March 2011 has been approved by the Remuneration Committee and accrued but not paid as at the year end. One recognition award was made to a Group Director, Claudio Pollack, and that award is contained within the figure for performance pay 2010/11 in the table above. Total remuneration for 2009/10 for executives has been restated to include performance pay for the year, which was agreed after

SECTION C

REMUNERATION REPORT

1. publication of the 2009/10 annual report and paid in financial year 2010/11. Performance pay for 2009/10 was awarded as follows:

PERFORMANCE PAY 2009/10	
	£
Jill Ainscough	10,000
Chris Banatvala	6,000
Stuart McIntosh	12,000
H Nwana	5,000
Claudio Pollack	8,000
Steward Purvis	3,500
Ed Richards	(see Note 2)
Steve Unger	10,000
Polly Weitzman	12,000
Christopher Woolard	8,000

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.

CONTRACT OF EMPLOYMENT

No Executive Member of the Ofcom Board or other Ofcom colleague has a contract of employment containing a notice period exceeding nine months. 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 and Philip Graf, who currently commit up to three days per week, and Millie Banerjee, who currently commits up to 1.5 days per week).

COMPENSATION FROM EARLY TERMINATION

The arrangements for early termination of a contract of employment for an Executive Member of the Ofcom Board or Group Director are decided by the Remuneration Committee and will be made in accordance with the contract employment of the relevant Executive Member or Group Director. Each contract of employment 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 it does not give rise to conflicts of interest.

On behalf of Ofcom,

Philip Graf
Chairman of the
Remuneration Committee

28 June, 2011

CHRIS BANATVALA, EXECUTIVE DISCLOSURE FOR DEFINED BENEFIT PENSIONS

	Accrued pension at 31 March 2010	Transfer value of accrued pensions at 31 March 2010 (31 March 2010 basis)	Accrued pension at 31 March 2011	Increase in accrued pension over period	Transfer value of accrued pension at 31 March 2011 (31 March 2010 basis)	Transfer value of accrued pension at 31 March 2011 (31 March 2011 basis)	Increase in transfer value less member's contributions
	£	£	£	£	£	£	£
Chris Banatvala	14,700	187,000	16,200	1,500	212,000	284,000	92,000

SECTION D – ACCOUNTS FOR THE PERIOD 1 APRIL 2010 TO 31 MARCH 2011**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT**

I certify that I have audited the financial statements of the Office of Communications for the year ended 31 March 2011 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 ACCOUNTING 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, certify and report on the financial statements in accordance with the Office of Communications Act 2002. I conducted my audit in accordance with 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 read all the financial and non-financial information in the Annual Report to identify material

inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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.

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 2011 and of its net operating surplus, 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 Operating and Financial Review and Directors' Report and Corporate Governance 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

29 June, 2011

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

STATEMENT OF INCOME AND EXPENDITURE

FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Income	3	126,245	129,574
Spectrum Clearance and Awards	3	17,939	3,161
Operating expenditure			
Staff costs	4	(65,420)	(62,276)
Other operating costs	6	(52,699)	(56,157)
Spectrum Clearance and Awards	6	(17,829)	(3,161)
Operating surplus		8,236	11,141
Vacant property	7	(1,455)	202
Finance income		177	316
Finance costs	8	-	(23)
Other finance income/(cost)	17,22	2,222	(473)
Surplus on ordinary activities for financial year before tax		9,180	11,163
Taxation	9	112	(151)
Surplus for financial year after tax		9,292	11,012

The accounting policies and notes on pages 71 to 95 form part of these financial statements.

SECTION D

STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Reserve £'000
Balance as at 1 April 2009		7,655
Changes in equity for 2009/10		
Actual return less expected return on plan assets	22	20,980
Experience gains on pension scheme liabilities	22	4,630
Changes in assumptions underlying the present value of pension scheme liabilities	22	(20,640)
Increase in minimum funding requirement liability	22	(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
Changes in equity for 2010/11		
Actual return less expected return on plan assets	22	290
Experience gains on pension scheme liabilities	22	(143)
Changes in assumptions underlying the present value of pension scheme liabilities	22	2,395
Decrease in minimum funding requirement liability	22	8,520
Surplus for year		9,292
Total recognised income and expense for 2010/11		20,354
Balance as at 31 March 2011		37,581

Further details on pensions are found in Note 22.

The accounting policies and notes on pages 71 to 95 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2011

	Notes	As at 31 March 2011 £'000	As at 31 March 2010 £'000
Non-current assets			
Property, plant and equipment	10	15,837	11,988
Intangible assets	11	11,713	14,932
Deferred tax asset	9	2,654	2,542
Trade and other receivables	13	1,339	468
Retirement benefit asset	22	20,362	1,586
Total non-current assets		51,905	31,516
Current assets			
Trade and other receivables	12	8,150	12,272
Cash and cash equivalents	14	26,944	35,348
Total current assets		35,094	47,620
Total assets		86,999	79,136
Current liabilities			
Trade and other payables	15	35,179	47,035
Provisions for liabilities and charges	17	342	1,134
Total current liabilities		35,521	48,169
Non-current liabilities			
Trade and other payables – amounts falling due after more than one year	16	9,631	10,523
Provisions for liabilities and charges	17	4,266	3,217
Total non-current liabilities		13,897	13,740
Total liabilities		49,418	61,909
Assets less liabilities		37,581	17,227
Equity			
Reserves		37,581	17,227
Total equity		37,581	17,227

The accounting policies and notes on pages 71 to 95 form part of these financial statements.

These financial statements were approved by the Board on 14 June, 2011.

Colette Bowe Ed Richards
Chairman Chief Executive

SECTION D

STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Cash flows from operating activities			
Operating surplus		8,236	11,141
Adjustments for non-cash transactions			
Amortisation	11	5,278	5,109
Depreciation	10	2,849	2,911
Loss on disposal of property, plant and equipment	6	88	6
Decrease/(increase) in trade and other receivables	12,13	3,251	(1,827)
Decrease in trade and other payables	15,16	(12,748)	(2,650)
Decrease in provisions	17	(1,287)	(169)
Increase in pension assets	22	(5,403)	(12,642)
Net cash inflow from operating activities		264	1,879
Cash flows from investing activities			
Interest received		177	316
Interest paid	8	-	(23)
Purchases of property, plant and equipment	10	(6,713)	(3,580)
Purchases of intangibles	11	(2,184)	(2,347)
Proceeds from sale of property, plant and equipment		52	48
Net cash outflow from investing activities		(8,668)	(5,586)
Cash flows from financing activities			
Repayment of borrowings		-	-
Net cash (outflow)/inflow from financing activities		-	-
Decrease in cash and cash equivalents in the year		(8,404)	(3,707)
Cash and cash equivalents at beginning of year	14	35,348	39,055
Decrease in cash and cash equivalents in the year		(8,404)	(3,707)
Closing net funds	14	26,944	35,348

The accounting policies and notes on pages 71 to 95 form part of these financial statements.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2011

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 2011 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 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) 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.

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

- IFRS 9 Financial Instrument (New) effective 1 January 2013;
- IFRS 7 Financial Instrument Disclosures (Amendment) effective 1 July 2011; and
- IAS 12 Income Taxes (Amendment) effective 1 January 2012.

The following new standards, amendments and interpretations to existing standards are effective in 2011:

- IFRS 7 Financial Instruments (Amendment): Disclosures effective 1 January 2011;
- IAS 1 Presentation of Financial Statements (Amendment) effective 1 January 2011;
- IAS 27 Consolidated and Separate Financial Statements (Amendment) effective 1 July 2010;

- IAS 34 Interim Financial Reporting (Amendment) effective 1 January 2011; and
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment) effective 1 January 2011.

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.

B) ACCOUNTING POLICY CHANGE

HM Treasury has agreed that, for Non Departmental Public Bodies (NDPBs) and other bodies where the Cost of Capital is charged to the Statement of Income and Expenditure and then released thus not affecting the Statement of Financial Position, no entry is required. This view has been adopted by Ofcom and the net impact on the surplus for the financial year before tax is zero. The impact on the surplus on ordinary activities is highlighted below.

	£'000
Surplus on ordinary activities for 2009/10	10,951
Adjustment for notional cost of capital	212
Restated surplus on ordinary activities for 2009/10	11,163

SECTION D

NOTES TO THE ACCOUNTS

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, integration of postal services, local media assessments, digital participation, website blocking, the regulation of online copyright infringement 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 period.

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 period.

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 (DCMS from 1 April 2011) 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 is 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 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, 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

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 licence 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 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.

SECTION D

NOTES TO THE ACCOUNTS

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 who transferred to Ofcom from legacy organisations. These schemes are closed to new members.

Following consultation with Plan members, Ofcom decided to close both Plans to future accruals from 1 June 2011 and informed members of their intention to do so in February 2011. All colleagues who are currently in a defined benefit pension plan will cease being active members of that plan on 31 May 2011. With effect from 1 June 2011 these colleagues will have access to the Ofcom Stakeholder Plan.

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

IAS19 requires that, where a scheme is in surplus according to the IAS19 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 Directors General of The Office of Telecommunications. These are unfunded schemes and are accounted for under IAS 19 with a provision included in Ofcom's balance sheet 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. The discount rate is set by HMT, currently at 2.9 per cent.

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.

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 of service 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 1 January 2008, this benefit was withdrawn for new employees.

M) PROVISIONS

Provisions for early retirement, vacant property and restructuring costs 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%. 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.

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.

SECTION D

NOTES TO THE ACCOUNTS

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 to 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 the requirements of the Communications Act 2003 to provide information on costs and fees, Note 2 to these financial statements presents the Statement of Income and Expenditure for the year under review by sector.

S) 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 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); and
- 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).

2. SECTORAL ANALYSIS

The analysis below refers to income by sector for the year ended 31 March 2011, 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 £'000	Spectrum clearance £'000	Spectrum awards £'000	Networks & services £'000	Broadcasting £'000	Other income £'000	31 March 2011 Total £'000	31 March 2010 Total £'000
Revenue								
Licence and administration fees	-	-	-	30,046	23,421	-	53,467	50,422
Application fees	-	-	-	-	673	-	673	599
Grant-in-aid	75,514	18,079	4,180	-	-	4,649	102,422	79,763
Other income	-	-	-	-	-	719	719	2,000
Accrued/(Deferred) income	(3,563)	(2,829)	(1,491)	(1,895)	(4,112)	(142)	(14,032)	(353)
Total revenue	71,951	15,250	2,689	28,151	19,982	5,226	143,249	132,431
Rental and other Income	537	-	-	210	149	39	935	304
Operating income	72,488	15,250	2,689	28,361	20,131	5,265	144,184	132,735
Interest receivable	102	-	-	40	28	7	177	316
Total income	72,590	15,250	2,689	28,401	20,159	5,272	144,361	133,051
Loan repayments	-	-	-	-	-	-	-	-
Interest payable	-	-	-	-	-	-	-	-
Net operating income	72,590	15,250	2,689	28,401	20,159	5,272	144,361	133,051
Onerous property and accrued rental income	608	-	-	238	169	44	1,059	2,083
Cash income	73,198	15,250	2,689	28,639	20,328	5,316	145,420	135,134
Total costs	(73,198)	(15,250)	(2,689)	(28,639)	(20,328)	(5,316)	(145,420)	(135,134)
Surplus on cash cost basis	-	-	-	-	-	-	-	-
Comparative costs by sector								
Year ending 31 March 2011	(73,198)	(15,250)	(2,689)	(28,639)	(20,328)	(5,316)	(145,420)	
Year ending 31 March 2010	(72,099)	-	(3,161)	(31,747)	(23,773)	(4,354)	(135,134)	

Other income comprises:

- grant-in-aid funded competition enquiries, media literacy work, public interest test activity, local media assessments, initial digital participation work and website blocking activity;
- grant-in-aid funded online copyright infringement work;
- grant-in-aid funded integration of Postcomm;
- 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 a note 1(C) to these accounts, grant-in-aid is accounted for in the period in which it is received.

SECTION D

NOTES TO THE ACCOUNTS

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	2011 £'000	2010 £'000
Operating expenditure – Statement of Income and Expenditure		135,948	121,594
Adjustments in respect of pension asset and liability		5,340	12,580
Vacant property costs	17	1,101	182
Capital expenditure less depreciation		770	(2,093)
Actual rent payments less expenditure		1,156	1,193
Other adjustments		1,157	1,726
Proceeds from fixed assets		(52)	(48)
Cash operating expenditure		145,420	135,134
Spectrum clearance		(15,250)	–
Spectrum awards		(2,689)	(3,161)
Non-operating income		(2,173)	(2,703)
Actual operating costs outturn		125,308	129,270

3. INCOME

	2011 £'000	2010 £'000
Grant-in-aid BIS		
Spectrum management	71,951	70,622
Spectrum awards	2,689	3,161
Spectrum clearance	15,250	–
Competition law enforcement	900	1,041
Public interest test	426	–
Integration of postal service regulation	406	305
Local media assessment	91	95
Digital participation	271	429
Website blocking	41	–
Online Copyright Infringement (OCI)	1,788	31
Grant-in-aid DCMS		
Media literacy	541	559
Total government grant-in-aid	94,354	76,243
Networks & services administrative and application fees	28,151	31,097
Broadcasting Act licence and application fees	19,982	23,286
Rental income	191	251
Other income	1,506	1,858
Total income	144,184	132,735

4. STAFF COSTS

	2011 £'000	2010 £'000
Staff costs, including fees paid to Board Members, were:		
Salaries & benefits	48,708	50,798
National Insurance costs	5,685	5,469
Pension costs	4,892	5,392
Restructuring costs	6,135	617
Total staff costs	65,420	62,276

The restructuring cost relates to the comprehensive expenditure review completed during 2010/11 together with some additional staff reductions earlier in the year. The restructuring cost includes an accrual for those costs unpaid at year end relating to 41 (2010: 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 60 to 64.

During the year an employee was seconded to another organisation and thus this credit is included within the staff costs line in the table above.

5. EMPLOYEE NUMBERS

	2011	2010
The average number of employees	832	865

As at 31 March 2011, Ofcom had 720 employees (2010: 873).

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

6. OTHER OPERATING COSTS

	Other Operating costs	Spectrum Clearance & Awards	Total 2011	Other Operating costs	Spectrum Clearance & Awards	Total 2010
	£'000	£'000	£'000	£'000	£'000	£'000
Auditors remuneration – statutory audit fees	82	–	82	103	–	103
Auditors remuneration – Section 400	16	–	16	17	–	17
Auditors remuneration – Whole of Government Accounts	3	–	3	–	–	–
Professional fees	6,338	5,320	11,658	7,877	3,005	10,882
Outsourced services	9,863	–	9,863	8,847	–	8,847
Audience and consumer research	4,857	–	4,857	4,665	–	4,665
Technological research and spectrum efficiency projects	963	545	1,508	2,655	–	2,655
Spectrum clearance scheme	19	11,760	11,779	–	–	–
Temporary staff and recruitment	3,311	188	3,499	3,251	126	3,377
Seconded staff	–	–	–	47	–	47
Travel and subsistence	1,084	9	1,093	1,394	14	1,408
Premises costs	8,002	–	8,002	7,814	–	7,814
Administration and office expenses	6,407	5	6,412	8,265	11	8,276
Information and technology costs	2,861	–	2,861	2,772	5	2,777
Vehicles	532	–	532	390	–	390
Bad and doubtful debt	147	–	147	34	–	34
Amortisation	5,279	–	5,279	5,109	–	5,109
Depreciation	2,847	2	2,849	2,911	–	2,911
Loss on disposal of non-current assets	88	–	88	6	–	6
Total other operating costs	52,699	17,829	70,528	56,157	3,161	59,318
The costs, above, include:						
Operating leases – land and buildings	6,330	–	6,330	6,249	–	6,249
Operating leases – vehicles	376	–	376	220	–	220
Operating leases – other	181	–	181	117	–	117

Spectrum Clearance and Awards costs have been presented separately from core Ofcom operating costs in order to provide a more meaningful comparison between the years.

During the course of the financial year Ofcom received a total of £382k from a former employee following the detection of a financial fraud. The former employee pleaded guilty to the charge of fraud through abuse of position in May 2011 to the value of £522k and received a custodial sentence. A further £109k has been recovered from the former employee during 2011/12, with the expectation that the remaining balance of the illegally acquired sum will be recovered during 2011/12. The returned funds received in 2010/11 are reflected within the IS and Technology costs total within the above table. As a result of the recoveries to date, and the further recover of funds anticipated in 2011/12, Ofcom will incur no financial loss, and does not anticipate the need to consider the write-off of any amounts.

7. VACANT PROPERTY CHARGE

	2011	2010
	£'000	£'000
Future costs of vacant properties	(1,455)	202

During the course of 2010/11 new tenants have been secured for vacant floors in Riverside House. As at 31 March 2011 all floors not occupied by Ofcom in Riverside House have been let. In addition leases on two smaller regional properties have expired. As a result of the above changes in the year an additional charge has been made to the provision for vacant properties as reported in Note 17.

8. INTEREST PAID

	2011	2010
	£'000	£'000
Interest paid	–	(23)

9. TAXATION

	2011	2010
	£'000	£'000
Tax (charge)/credit for the year		
United Kingdom Corporation Tax income/(expense)	–	–
Deferred tax credit/(debit)	112	(151)
Tax (charged)/credited to Statement of Income and Expenditure	112	(151)
Reconciliation of tax charge	2011	2010
	£'000	£'000
Surplus before tax	9,180	11,163
Tax on profit at the UK standard rate of Corporation Tax of 20% (2010: 21%)	1,836	2,344
Income not subject to tax	(28,799)	(27,832)
Expenses not deductible	26,730	25,639
Increase in/(Utilisation of) brought forward tax losses	233	(151)
Tax charge	–	–
Deferred tax	Tax losses	
	£'000	
Analysis of movements in the net deferred tax balance during the year		
Deferred tax asset at 1 April 2009	2,693	
Utilisation of brought forward tax losses	(151)	
Deferred tax asset at 1 April 2010	2,542	
Effect of change in applicable tax rate	(121)	
Increase in brought forward tax losses	233	
Deferred tax asset at 31 March 2011	2,654	
Deferred tax asset to be recovered within 12 months	13	
Deferred tax asset to be recovered after more than 12 months	2,641	
	2,654	

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.

SECTION D

NOTES TO THE ACCOUNTS

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements £'000	Fixtures & fittings £'000	Office & field equipment £'000	Computer hardware £'000	Motor vehicles £'000	Total £'000
COST						
At 1 April 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	–	–	–	–	–	–
At 31 March 2010	14,462	828	13,469	3,985	556	33,300
Additions during year	365	15	580	5,753	–	6,713
Impairment	–	–	–	–	–	–
Disposals	(397)	(4)	(65)	(23)	(430)	(919)
Transfers	125	–	–	–	–	125
Cost at 31 March 2011	14,555	839	13,984	9,715	126	39,219
DEPRECIATION						
At 1 April 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	–	–	–	–	–	–
At 31 March 2010	8,026	417	9,222	3,106	541	21,312
Charge for the year	956	91	1,145	656	1	2,849
Impairment	–	–	–	–	–	–
Disposals	(271)	(4)	(65)	(23)	(416)	(779)
Transfers	–	–	–	–	–	–
Accumulated depreciation at 31 March 2011	8,711	504	10,302	3,739	126	23,382
NBV 31 March 2011	5,844	335	3,682	5,976	–	15,837
NBV 31 March 2010	6,436	411	4,247	879	15	11,988

All assets set out in the table above are Ofcom-owned assets.

11. INTANGIBLE ASSETS

	Website Development £'000	Software licences £'000	Information technology £'000	Development expenditure £'000	Total £'000
COST					
At 1 April 2009	–	5,243	20,151	339	25,733
Additions during year	–	–	817	1,530	2,347
Impairment	–	–	–	–	–
Disposals	–	(76)	(61)	–	(137)
Transfers	–	–	198	(198)	–
At 31 March 2010	–	5,167	21,105	1,671	27,943
Additions during year	18	237	349	1,580	2,184
Impairment	–	–	–	–	–
Disposals	–	(47)	(201)	–	(248)
Transfers	21	–	503	(649)	(125)
Cost at 31 March 2011	39	5,357	21,756	2,602	29,754
AMORTISATION					
At 1 April 2009	–	1,682	6,357	–	8,039
Charge for the year	–	1,024	4,085	–	5,109
Impairment	–	–	–	–	–
Disposals	–	(76)	(61)	–	(137)
Transfers	–	–	–	–	–
At 31 March 2010	–	2,630	10,381	–	13,011
Charge for the year	11	965	4,302	–	5,278
Impairment	–	–	–	–	–
Disposals	–	(47)	(201)	–	(248)
Transfers	–	–	–	–	–
Accumulated amortisation at 31 March 2011	11	3,548	14,482	–	18,041
NBV 31 March 2011	28	1,809	7,274	2,602	11,713
NBV 31 March 2010	–	2,537	10,724	1,671	14,932

All assets set out in the table above are Ofcom-owned assets.

SECTION D

NOTES TO THE ACCOUNTS

12. TRADE AND OTHER RECEIVABLES – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011	2010
	£'000	£'000
Trade receivables	1,852	2,092
Other receivables	210	189
Prepayments	4,999	4,892
Staff loans and advances	213	261
Accrued income	876	4,838
Total trade and other receivables – amounts falling due within one year	8,150	12,272

Staff loans relate to 168 (2010:186) season ticket loans to colleagues repayable over 12 months.

13. TRADE AND OTHER RECEIVABLES – AMOUNTS RECEIVABLE AFTER MORE THAN ONE YEAR

	2011	2010
	£'000	£'000
Prepayments	544	–
Accrued income	795	468
Total trade and other receivables – amounts receivable after more than one year	1,339	468

14. CASH AND CASH EQUIVALENTS

	2011	2010
	£'000	£'000
Commercial banks and cash in hand	26,942	35,348
Balance of funds relating to Section 400	2	–
Total cash and cash equivalents	26,944	35,348

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.

15. TRADE AND OTHER PAYABLES – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011	2010
	£'000	£'000
Trade payables	711	535
Other tax and social security	1,790	–
Other payables	563	713
Value added tax payable	135	34
Grant-in-aid BIS	8,255	29,238
Accruals	15,886	13,800
Lease incentive accrual	1,337	1,316
Deferred income	6,502	1,399
Total trade and other payables – amounts falling due within one year	35,179	47,035

Grant-in-aid BIS, reduced as a result of a change to the timing of receipts from March 2011 to April 2011.

16. TRADE AND OTHER PAYABLES – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011	2010
	£'000	£'000
Lease incentive accrual	8,693	9,870
Deferred income	938	653
Total trade and other payables – amounts falling due after more than one year	9,631	10,523

17. PROVISIONS FOR LIABILITIES AND CHARGES

Total as at 31 March 2010

	Early retirement £'000	Vacant property £'000	Restructuring £'000	Total £'000
At 1 April 2009	635	3,917	107	4,659
Discount unwound in year	14	48	–	63
Utilised in year	(213)	(182)	(107)	(503)
Provision increased/(released)	49	(202)	285	132
At 1 April 2010	485	3,581	285	4,351
Discount unwound in year	11	79	–	90
Utilised in year	(185)	(1,101)	(257)	(1,543)
Provision increased/(released)	283	1,455	(28)	1,710
Total provisions as at 31 March 2011	594	4,014	–	4,608

Provisions are calculated in accordance with the requirements of IAS 37. Provisions for early retirement are discounted by 2.9 per cent (2010: 2.2 per cent) per annum in accordance with HM Treasury direction; all other provisions are discounted by 2.2 per cent (2010: 2.2 per cent).

Analysis of expected timing of cashflows

	Early retirement £'000	Vacant property £'000	Total £'000
Current			
Not later than one year	151	191	342
	151	191	342
Non-current			
Later than one year and not later than five years	300	3,137	3,437
Later than five years	143	686	829
	443	3,823	4,266
	594	4,014	4,608

The provision for early retirement £0.6m (2010: £0.5m) 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 two properties (2010: three) 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 or reasonably certain future sub-letting agreements. The provision has been increased as a result of an additional floor becoming vacant in Riverside House for which a new lease has been secured, as well as the change in tenants for another floor at Riverside House.

18. COMMITMENTS UNDER OPERATING LEASES

	Buildings	Vehicles	Other	Total
	£'000	£'000	£'000	£'000
The future aggregate minimum lease payments under operating leases are as follows:				
Not later than one year	8,421	356	226	9,003
Later than one year and not later than five years	32,925	829	688	34,442
Later than five years	20,567	–	–	20,567
Total commitments under operating leases	61,913	1,185	914	64,012

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

19. AMOUNTS RECEIVABLE UNDER OPERATING LEASES

	Buildings 2011
	£'000
The future minimum lease payments receivable under non-cancellable operating leases are as follows:	
Not later than one year	1,547
Later than one year and not later than five years	1,862
Later than five years	–
	3,409

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

20. 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. The company will be wound down in June 2011. Accordingly, the company will prepare accounts for a fifteen month period to 30 June 2011. In this period the company is forecast to have a turnover of £0.5m (2010: £0.4m), an operating profit after taxation of £0.0m (2010: £0.0m) and reserves of £0.0m (2010: £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.

21. MG ALBA

In accordance with Section 210 of the Communications Act 2003 and Section 183 of the Broadcasting Act 1990, the Scottish Ministers paid £12.5m (2010: £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 the Seirbheis nam Meadhanan Gàidhlig (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.

22. RETIREMENT BENEFIT OBLIGATIONS

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

	2011	2010
	£'000	£'000
Defined benefit pensions – 22B	21,260	2,480
Unfunded pensions liability – 22C	(898)	(894)
Total retirement benefit obligations	20,362	1,586

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 2011 (2010: £3.7m).

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 2011 were £2.6m (2010: nil). An additional £4.7m was transferred from the Feeder Trust account. Ofcom also operates a defined contribution section to the plan and made contributions of £0.1m in 2011 (2010: £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 2011 was £4.2m (2010: nil). An additional £4.5m was transferred from the Feeder Trust account.

Following consultation with Plan members, Ofcom has decided to close both Plans to future accrual from 1 June 2011 and informed members of its intention to close the Plans in February 2011. The results of the IAS 19 calculations recognise the curtailment gain created by this action in full as at 31 March 2011.

EMPLOYEE BENEFIT OBLIGATIONS

The amounts recognised in the Statement of Financial Position are as follows:	2011	2010
	£'000	£'000
Funded status, end of year		
Fair value of plan assets	217,470	199,670
Pension fund feeder bank account	7,380	16,520
Benefit obligations	(187,580)	(189,180)
Funded status	37,270	27,010
Minimum funding requirement liability	(16,010)	(24,530)
Net funded status	21,260	2,480

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. The minimum funding requirement relates only to the Ofcom (Former ITC) Pension Plan and the agreed schedule of contributions relating to that.

The amounts recognised in the Statement of Income and Expenditure are as follows:	2011	2010
	£'000	£'000
Current service cost	1,490	1,420
Interest on obligation	10,520	10,480
Expected return on plan assets	(11,010)	(10,120)
Past service cost	560	–
Curtailment or settlement (gain)/loss	(2,430)	–
Net (surplus)/cost in income and expenditure	(870)	1,780
Actual return on plan assets	(11,300)	(31,100)

Changes in the present value of the defined benefit obligation areas:	2011	2010
	£'000	£'000
Opening defined benefit obligation	189,180	171,080
Current service cost	1,490	1,420
Interest cost	10,520	10,480
Plan participants' contributions	210	240
Actuarial (gains)/losses	(2,270)	15,980
Past service cost	560	–
Gains on curtailment	(2,430)	–
Benefits paid	(9,680)	(10,020)
Closing defined benefit obligation	187,580	189,180

Changes in the fair value of plan assets are as follows:	2011	2010
	£'000	£'000
Opening fair value of plan assets	199,670	178,370
Expected return	11,010	10,090
Actuarial gains	290	20,990
Contributions by employer	6,830	–
Contributions from Feeder Trust	9,140	–
Plan participants' contributions	210	240
Benefits paid	(9,680)	(10,020)
Closing fair value of plan assets	217,470	199,670

Employer's contributions include £6.8m together with £9.1m and additional interest which was transferred from the balance on the Feeder Trust account. In the previous financial year, £14m was placed in the Feeder 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.

SECTION D

NOTES TO THE ACCOUNTS

The major categories of plan assets as a percentage of total plan assets are as follows:	2011	2010
	%	%
Equities	17	16
Corporate bonds	8	5
Index-linked bonds	18	16
Fixed interest government bonds	0	0
Annuities	52	55
Other (including assets in the Ofcom Pension Trust)	5	8
	100	100

Return on assets (before deduction of expenses):	2011	2010
	%	%
Equities	7.8	7.5
Corporate bonds	5.7	5.7
Index-linked bonds	4.8	4.5
Fixed interest government bonds	4.8	4.5
Annuities	5.7	5.7
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):	2011	2010
	%	%
Discount rate	5.7	5.7
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)	5.6	5.7
Future salary increases	0.0	4.6
Future pension increases (RPI)	3.4	3.6
Future pension increases (CPI)	2.3	0.0
Retail Price Inflation	3.5	3.6

Amounts for the current and previous years are as follows:	2011	2010
	£'000	£'000
Funded status		
Fair value of plan assets	224,850	216,190
Present value of defined benefit obligations	(187,580)	(189,180)
Surplus in fund	37,270	27,010

	2011	2010	2009
	£'000	£'000	£'000
Experience adjustments on plan liabilities	(120)	4,610	(1,207)
Experience adjustments on plan assets	290	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 are 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.

SECTION D

NOTES TO THE ACCOUNTS

Analysis of the amount debited to other finance costs	2011	2010
	£'000	£'000
Interest on pension liabilities	(49)	(50)
Net return	(49)	(50)

Analysis of the amount recognised in the Statement of Changes in Equity (SOCIE)	2011	2010
	£'000	£'000
Experience (losses)/gains arising on the plans' liabilities	(23)	20
Changes in assumptions underlying the present value of pension scheme liabilities	5	(50)
Actuarial loss recognised in SOCIE	(18)	(30)

Movement in deficit during the year	2011	2010
	£'000	£'000
Deficit in plans at 1 April	(894)	(876)
Total current service cost	–	–
Employer's contributions (including those unpaid at measurement date)	63	62
Employees' contributions	–	–
Other finance costs	(49)	(50)
Actuarial loss	(18)	(30)
Deficit in plans	(898)	(894)

23. 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 (BIS) 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 3 and Note 15 respectively of these financial statements.

At 31 March 2011, the following creditors were held in respect of grant-in-aid provided by BIS:

- Spectrum management – £3.6m (2010: £22.6m);
- Spectrum clearance – £2.8m (2010: £4.1m);
- Programme of spectrum awards – £1.5m (2010: £1.8m);
- Online Copyright Infringement – £0.2m (2010: £nil); and
- Other sectors – £0.1m (2010: £0.8m).

Grant-in-aid balance at 31 March 2011 reduced when compared to the prior year as a result of a change to the timing of receipts from March 2011 to April 2011.

A defined contribution scheme and two defined benefit schemes are operated. Refer to Note 22 for further disclosure.

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

24. 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.

25. CAPITAL COMMITMENTS

At 31 March 2011 there were capital commitments of £0.1m (2010: £0.6m), primarily relating to e-licensing foundational development work and refurbishment at Riverside House.

26. RECEIPTS TRANSFERRED TO THE CONSOLIDATED FUND

In accordance with Section 400 of the Communications Act 2003, Ofcom remitted £3.6m (2010: £26.8m) of Broadcasting Act Additional Payments and Fines to the Consolidated Fund.

£187.6m (2010: £165.9m) 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 2011 are disclosed at Note 14 to these financial statements.

27. CONTINGENT LIABILITIES

Ofcom has no contingent liabilities at the end of the reporting period.

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. In these cases a provision is made in the financial statements 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. For the 2010/11 financial year no provision was required.

28. WHOLE OF GOVERNMENT ACCOUNTS

At 31 March 2011, Ofcom owed £10.2m (2010: £29.3m) to central government bodies. There are no amounts owing to local authorities, NHS Trusts or public corporations and trading funds.

Section 400 shows £0.6m (2010: £4.3m) owing to central government bodies.

29. 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

REGULATORY STATEMENTS

The figure below summarises Ofcom's policy statements published during 2010/11. It includes a colour-coded key that indicates how the regulatory burden on stakeholders has changed as a result of Ofcom's regulatory decisions and statements in 2010/11. It shows that 54 per cent of the statements saw no change in regulatory burden or the work is ongoing; 29 per cent of statements resulted in reduced regulatory burden on stakeholders; 14 per cent of statements saw the introduction of increased or new regulation; while three per cent resulted in streamlined or co-regulatory outcomes.

We have categorised each statement in the table below as an Annual Plan Priority or an Ongoing Major Work Area, as set out in the Annual Plan 2010/11.

LIST OF STATEMENTS PUBLISHED IN 2010/11 INCLUDING REGULATORY IMPACT ON STAKEHOLDERS

CONSUMER AND CITIZEN

Priority – Adapt content regulation to meet the changing needs of audiences

- Broadcasting Code Review: Commercial Communications in Television Programming
- Broadcasting Code Review: Commercial Communications in Radio Programming
- Regulatory fees for video-on-demand services
- Participation TV
- Radio Multiplex Licence Renewals
- Renewal of the Independent National Radio Licences
- Local commercial analogue radio licence durations
- COSTA trial waiver for film break lengths on PSBs
- Statement of commercial radio localness regulation

Priority – Ensure consumers can switch between communications providers by removing unnecessary barriers

- Changes to the Mobile Number Porting Process

Ongoing Major Work Area – New UK Legislation

- Measures to Tackle Online Copyright Infringement: Terms of Reference

Ongoing Major Work Area – Ensure availability, take-up and effective use of communications services

- Review of ITV Networking Arrangements

Ongoing Major Work Area – Protect consumers and audiences from harm and unfair practices

- Approval of PhonepayPlus Code of Practice (12th Edition)
- Tackling abandoned and silent calls (Consumer)
- A Review of Consumer Complaints Procedures (Consumer)
- Metering and Billing Statement on Enigma (Consumer)
- Modifications to the Ofcom Metering and Billing Direction 2008 (Consumer)

Ongoing Major Work Area – Other Consumer & Citizen projects

- Local Media Assessments

LIST OF STATEMENTS PUBLISHED IN 2010/11 INCLUDING REGULATORY IMPACT (CONTINUED)

COMPETITION

Priority – Ensure fair and effective competition in Pay TV

- Premium Pay TV Movies

Priority – Implement regulation to support effective and efficient investment in super-fast broadband

- Review of the wholesale broadband access markets
- Review of the wholesale local access market

Ongoing Major Work Area – Promote effective competition in fixed and mobile telecoms

- Pension Review
- Changes to the Numbering Plan – Addendum, A proposal for modifications to the Numbering Application Forms to facilitate the increase in VAT from January 2011
- Retail Bundling in Hull – KCOM Bundling of SMP and non-SMP Products
- Changes to BT and KCOM's regulatory and financial reporting 2009/10 update
- Mobile Call Termination Review
- Leased Lines Charge Control
- Routing calls to ported telephone numbers
- Conserving geographic numbers
- Review of retail and wholesale ISDN30 markets
- Review of the wholesale fixed analogue exchange lines markets
- Exemption from BT's Undertakings under the Enterprise Act 2002 related to Wavestream National
- Harmonised European Numbers For Services Of Social Value
- Telephone Numbering

Ongoing Major Work Area – Ensure availability, take-up and effective use of communications services

- Television Access Services Review

Other Competition projects

- Determination of the financial terms for Channel 3 and Channel 5 licences
- Airtime Sales Rules Review

Continued over page.

The colour of the circle indicates the direction of regulation as follows:

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

LIST OF STATEMENTS PUBLISHED IN 2010/11 INCLUDING REGULATORY IMPACT (CONTINUED)

INFRASTRUCTURE & SPECTRUM

Priority – Start successful clearance of 800 Mhz band to create opportunities for new mobile services

- Programme-making and special events: future spectrum management, access and availability
- Funding for programme-making and special events
- Programme-making and special events
- Digital Switchover and 800 MHz Clearance – Management of transitional coverage issues
- Statement on variation of 900 MHz and 1800 MHz Wireless Telegraphy Act licences

Priority – Prepare plans for the release of spectrum for mobile broadband

- Application for a variation to 3G licences
- 600 MHz and geographic interleaved spectrum

Priority – Ensure wireless services for the London 2012 Olympic and Paralympic Games will be delivered

- Reserving the band 2500–2690 MHz for the London 2012 Games

Ongoing Major Work Area – Promote efficient allocation of spectrum

- Decision to Vary Satellite Earth Station Licences
- Simplifying spectrum trading
- Decision to amend the Wireless Telegraphy (Automotive Short Range Radar) (Exemption) (No.2) Regulations 2005
- Applying spectrum pricing to the maritime sector, and new arrangements for the management of spectrum used with radar and aeronautical navigation aids
- Providing spectrum information – Implementing the Environmental Information Regulations 2004
- Proposals for changes to licence exemption for Wireless Telegraphy Devices
- Additional Spectrum for Transportable Earth Stations
- Proposal to make the Wireless Telegraphy (Ultra-Wideband Equipment) (Exemption) (Amendment) Regulations 2010
- Fees for aeronautical radio licences
- SRSP: The revised Framework for Spectrum Pricing
- Release of 2010-2025 MHz
- Decision to make the Wireless Telegraphy (Mobile Communication Services on Board Ships) (Exemption) Regulations 2011
- Proposal to make the Wireless Telegraphy (Licensing Procedures) Regulations 2010

Ongoing Major Work Area – Promote efficient allocation of spectrum

- Content management on the HD Freeview platform

The colour of the circle indicates the direction of regulation as follows:

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

OFCOM STATEMENTS PUBLISHED IN 2010/11 IN WHICH THE EARLIER CONSULTATION INCLUDED AN IMPACT ASSESSMENT

Routing calls to ported telephone numbers

Programme-making and special events : future spectrum management, access and availability

Simplifying spectrum trading

Statement of commercial radio localness regulation

Decision to amend the Wireless Telegraphy (Automotive Short Range Radar) (Exemption) (No.2) Regulations 2005

Participation TV

Changes to BT and KCOM's regulatory and financial reporting 2009/10 update

Television Access Services Review

Content management on the HD Freeview platform

Applying spectrum pricing to the maritime sector, and new arrangements for the management of spectrum used with radar and aeronautical navigation aids

Regulatory fees for video on demand services for the period up to 31 March 2011

Proposal to make the Wireless Telegraphy (Licensing Procedures) Regulations 2010

Airtime Sales Rules Review

Metering and Billing – Statement on Enigma

Funding for programme-making and special events

A Review of Consumer Complaints Procedures

Review of retail and wholesale ISDN30 markets – Statement on the markets, market power determinations and remedies

Programme-making and special events

Leased Lines Charge Control: Adoption of Revised SMP Services Conditions

Retail Bundling in Hull – KCOM Bundling of SMP and non-SMP Products

Review of the wholesale local access market

Tackling abandoned and silent calls.

Application for a variation to 3G licences (and consequent proposal to vary draft 2 GHz MSS/CGC base station licences)

Radio Multiplex Licence Renewals

Proposals for changes to licence exemption for Wireless Telegraphy Devices

Additional Spectrum for Transportable Earth Stations

Proposal to make the Wireless Telegraphy (Ultra-Wideband Equipment) (Exemption) (Amendment) Regulations 2010

Local Media Assessments

Review of the wholesale broadband access markets

Reserving the band 2500–2690 MHz for the London 2012 Games

Fees for aeronautical radio licences

Digital Switchover and 800 MHz Clearance – Management of transitional coverage issues

SRSP: The revised Framework for Spectrum Pricing

Review of the wholesale fixed analogue exchange lines markets

Broadcasting Code Review: Commercial Communications in Television Programming

Broadcasting Code Review: Commercial Communications in Radio Programming

Modifications to the Ofcom Metering and Billing Direction 2008

Release of 2010-2025 MHz

COSTA trial waiver for film break lengths on PSBs

Mobile Call Termination Review

Approval of the PhonepayPlus Code of Practice (12th Edition)

Decision to make the Wireless Telegraphy (Mobile Communication Services on Board Ships) (Exemption) Regulations 2011.

**OFCOM CONSULTATIONS PUBLISHED IN 2010/11 WHICH INCLUDED AN IMPACT ASSESSMENT
AND WHERE NO STATEMENT HAS BEEN PUBLISHED**

Recognised Spectrum Access ("RSA") for Receive Only Earth Stations in the Bands 1690 – 1710 MHz, 3600 – 4200 MHz and 7750 – 7850 MHz

Strategic review of consumer switching

Fair and reasonable charges for fixed geographic call termination

Implementing Geolocation

Geographic telephone numbers

Simplifying Non-Geographic Numbers

Proposals for WBA charge control

NTS Retail Uplift and PRS Bad Debt Surcharge

Changes to BT and KCOM's regulatory and financial reporting 2010/11 update

Changes to General Conditions and Universal Service Conditions

Automatically Renewable Contracts

Bespoke licence fees for aeronautical VHF communications frequencies

Assessment of future mobile competition and proposals for the award of 800 MHz and 2.6 GHz spectrum and related issues

Charge control review for LLU and WLR services

STATISTICAL DATA – BROADCASTING

PROGRAMME COMPLAINTS

Ofcom has a statutory duty to consider 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 24,633 programme complaints, of which 24,462 were complaints about programme standards (including issues relating to political advertising and the scheduling of television advertising), and 171 were complaints about alleged unfairness and/or 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 9,202 cases (24,633 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 9,031 closed cases (24,462 complaints) relating to programme standards:

- 168 cases were found to be in breach either of the Broadcasting Code, other Ofcom codes or of licence conditions. Of these, three cases were subject to statutory sanctions (involving three separate broadcasters);
- 36 cases were resolved; and
- 8,827 cases were not in breach or were out of remit.

Number completed within target:

- Straightforward cases – 99.3 per cent closed within 30 working days (target: 80 per cent); and
- Complex cases – 84.9 per cent closed within 60 working days (target: 80 per cent).

FAIRNESS AND PRIVACY

Of the 171 closed cases relating to fairness and privacy:

- nine were upheld (of which four were partly upheld);
- 36 were not upheld;
- 13 were not resolved (following appropriate action taken by the broadcaster); and
- 113 were not entertained or discontinued after entertainment.

Number completed within target:

91.2 per cent of cases were closed within their KPI target. The targets are:

- Straightforward cases – 80 per cent closed within 80 working days (target: 80 per cent); and
- Complex cases – 80 per cent closed within 130 working days (target: 80 per cent).

BROADCASTING SANCTIONS COMMITTEE

Cases which the Executive believes may warrant the consideration of a statutory sanction are referred to the Broadcasting Sanctions Committee. The Broadcasting Sanctions Committee is quorate with three members, with at least two being Content Board members (which could include the Chairman of the Committee). The Broadcasting Sanctions Committee is chaired by the Chairman of the Content Board.

During the period under review, the Broadcasting Sanctions Committee applied sanctions in three cases.

The Broadcasting Sanctions Committee decided to impose a financial penalty on:

- Teletext Limited, in respect of the public teletext service licence – £225,000;
- DM Digital Television Limited in respect of its service DM Digital – £17,500 and a Direction to transmit Ofcom's statement of finding on one occasion; and
- Bang Channels Limited, in respect of the services Tease Me, Tease Me 2 and Tease Me 3 – £147,250, and Bang Media (London) Limited, in respect of the service Tease Me TV – £10,000.

STATISTICAL DATA – BROADCAST LICENSING

TV LICENCES ISSUED

Category	2010/11	2009/10	On Issue
TV licences issued	125	98	989*
TV licences transferred	67	76	

* 887 TLCS licences (which authorises cable, satellite, and internet);
84 DTAS/DTPS (for content on Freeview); 18 public service
(regional 3 licences, 4, 5 and Breakfast)

RADIO LICENCES ISSUED

Category	2010/11	2009/10	On Issue
Local Sound Broadcasting Licence	1	1	294
National Sound Broadcasting Licence	–	–	3
Local Digital Multiplex (Local Radio Multiplex Service)	–	–	46
National Radio Multiplex	–	–	1
Radio Licensable Content Service (RLCS)	6	3	88
(Local) Digital Sound Programme Service (DSPS)	12	10	65
(National) Digital Sound Programme Service (DSPS)	3	2	15
Digital Additional Service (DAS)	1	–	7
Additional Radio Service Licence	–	–	1
Short Term Restricted Service Licence (RSL)	321	337	–
Long Term Restricted Service Licence (RSL)	15	14	96
Audio Distribution System RSL	–	5	10
Community Radio	23	37	187

STATISTICAL DATA – TELECOMS

COMPLAINTS ABOUT TELECOMS SERVICES

	2010/11	2009/10	Change (%)
Automatic contract renewals	1,050	--	100
Additional charges	5,650	6,300	-10
Broadband speeds	1,400	1,600	-13
Charged for cancelled service	4,500	3,550	27
Complaints handling	15,750	11,250	40
Migration	5,300	7,800	-32
Mis-selling	15,300	11,950	28
Silent calls	10,350	7,400	40
Other	53,450	55,550	-4
Total complaints	112,750	105,400	7

Note: Automatic contact renewals is a new category introduced in 2010/11; processes for logging telecoms complaints changed in 2010/11 to facilitate easier complaints gathering.

INVESTIGATIONS PROGRAMME

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 2010/11 and how we have performed against our statutory and published targets (as of 31 March 2011).

It should be noted that the number of cases recorded in the table tends to be small and the reported key performance indicators (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.

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

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"> ■ 18 enquiries were concluded in 2010/11 (9 led to disputes being accepted, 3 led to other investigations and 6 resulted in no further action) ■ 13 of the 18 enquiries (72%) were completed within target 	<ul style="list-style-type: none"> ■ No enquiries were ongoing at the year end
DISPUTES <ul style="list-style-type: none"> ■ Completion within 4 months 	<ul style="list-style-type: none"> ■ A total of 16 disputes were handled in the course of the year ■ 10 disputes were resolved in the year ■ 8 of the 10 (80%) disputes were concluded within target. Exceptional circumstances applied to one of the other cases and the other was completed in a little over 5 months following re-consultation 	<ul style="list-style-type: none"> ■ 6 disputes were ongoing at end of the year ■ 2 were within target ■ Exceptional circumstances apply to 3 of the 4 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 investigations were opened during the year ■ 1 investigation was closed that exceeded target 	<ul style="list-style-type: none"> ■ There was 1 ongoing investigation that has exceeded target
OTHER INVESTIGATIONS AND ENFORCEMENT PROGRAMMES <ul style="list-style-type: none"> ■ Individual investigations have a target of completion within 4 months for all except own-initiative or Enterprise Act investigations which have a target of completion in 6 months. Enforcement programmes are not subject to time targets 	<ul style="list-style-type: none"> ■ 6 investigations were opened and 3 were closed in 2010/11 ■ All of the 3 closed investigations were completed within target (100%) ■ 1 enforcement programme was opened and one closed in 2010/11 	<ul style="list-style-type: none"> ■ There were 6 ongoing individual investigations at the end of 2010/11 ■ 5 of these 6 were within target at the end of 2010/11 ■ In addition, there were 5 ongoing enforcement programmes

SPECTRUM ENGINEERING AND ENFORCEMENT – KEY PERFORMANCE INDICATORS

MAIN ACTIVITIES

Work Programme Activity/Incident	2010/11	2009/10	Change (%)
Interference cases received	2,970	4,101	-28
Baldock: spectrum activities	4,265	3,986	7
Interference cases closed	3,180	4,004	-21
Enforcement cases opened	752	1,488	-49
Radio system compliance inspections completed	235	219	7
Successful prosecutions for criminal spectrum activity	30	34	-12
Unsuccessful prosecutions for criminal spectrum activity	–	1	-100

Note: In June 2010, the service provided by Ofcom to investigate complaints of radio and television interference on behalf of the BBC came to an end. Responsibility for investigating these cases was taken over by the BBC, in accordance with its charter. This accounts for the reduction in volumes and our field force was reduced accordingly.

ANNEX

SPECTRUM ENGINEERING AND ENFORCEMENT – KEY PERFORMANCE INDICATORS

KEY PERFORMANCE INDICATORS

Case Area: Interference	Case Stage	Target	Quality of Service Target Achieved April 10 – March 11	Quality of Service Target Achieved April 9 – March 10
Case Sub-Area (see note 1)				
Priority 1	Opening Communications	4 hrs	86%	78%
	Diagnostic	20 hrs	67%	67%
	Encouraging and/or Enforcing Compliance	2 working days	93%	100%
	Closing Communications (closing admin only)	7 working days	86%	92%
Priority 2	Opening Communications	12 hrs	97%	85%
	Diagnostic	24 hrs	86%	78%
	Encouraging and/or Enforcing Compliance	3 working days	88%	50%
	Closing Communications (closing admin only)	8 working days	96%	76%
Priority 3	Opening Communications	1 working day	32%	55%
	Diagnostic	3 working days	57%	41%
	Encouraging and/or Enforcing Compliance	5 working days	64%	50%
	Closing Communications (closing admin only)	10 working days	97%	58%
Priority 4	Opening Communications	1 working day	81%	51%
	Diagnostic	5 working days	41%	23%
	Encouraging and/or Enforcing Compliance	10 working days	73%	57%
	Closing Communications (closing admin only)	15 working days	97%	58%
Priority 5	Opening Communications	2 working day	88%	85%
	Diagnostic	30 working days	81%	77%
	Encouraging and/or Enforcing Compliance	40 working days	79%	88%
	Closing Communications (closing admin only)	45 working days	98%	81%

Interference work in 2010/11 relating to the business and service sectors increased as a percentage of the total cases from 43 per cent over the first half-year to 54 per cent over the second half-year. These cases tend to be more complex to diagnose and attract a higher priority with very demanding targets, so in this context we are pleased to report improvement in performance against our targets. This is shown in detail above, but to illustrate the overall percentage achievement, the diagnostic stage has increased by 9 per cent and encouraging and/or enforcing compliance by 10 per cent.

SPECTRUM LICENSING

CATEGORY A

Licences that involve no frequency assignment, site clearance or international co-ordination	Licences issued April 10 – March 11	Licences issued April 09 – March 10	Total on issue as at 31 March 11
Business Radio Light – Simple UK (no base station)	1,348	1,049	6,819
Fixed Wireless Access (5.8 GHz)	61	82	317
Business Radio Simple Site	621	552	6,726
Business Radio Suppliers Light	49	66	508
Police and Fire	–	8	123
Subtotal for Business Radio products	2,079	1,757	14,493
Radar Level Gauge	–	–	124
CB, Amateur & Maritime	24,487	25,154	185,904
Total for Category A	26,566	26,911	200,521
KPI for Category A (100% in 7 days)	99%	92%	–
KPI for Category A (CB, Amateur & Maritime) (100% in 10 days)	99%	99%	–

ANNEX

SPECTRUM LICENSING

CATEGORY B

Licences that involve frequency assignment, but no site clearance or international co-ordination	Licences issued April 10 – March 11	Licences issued April 09 – March 10	Total on issue as at 31 March 11
Automatic Identification System	18	24	130
Coastal Station Radio (International)	35	54	514
Coastal Station Radio (UK)	40	58	425
Coastal Station Radio (Marina)	43	37	425
Coastal Station Radio (Training School)	43	40	226
Maritime Radio (Suppliers & Demonstration)	5	6	79
Maritime Nav aids and Radar	4	14	110
Differential Global Positioning System	1	–	12
Subtotal for Deregulation & Contracting-Out products	189	233	1,921
Business Radio Technically Assigned	2,705	2,658	27,809
Business Radio Area Assigned	85	42	162
Ground Probing Radar	15	23	131
Scanning Telemetry	2	2	28
Self co-ordinated links	4	6	11
Subtotal for Business Radio products	2,811	2,731	28,141
Total for Category B	3,000	2,964	30,062
KPI for Category B			
90% in 21 days	99%	96%	–
100% in 42 days	99%	98%	–

CATEGORY C

Licences that require frequency assignment, and site clearance and/or international co-ordination	Licences issued April 10 – March 11	Licences issued April 09 – March 10	Total on issue as at 31 March 11
Fixed Links	1,978	2,140	36,497
Satellite (Permanent Earth Station)	24	21	166
Satellite (Transportable Earth Station)	87	68	133
Satellite (Earth Station Network)	8	18	56
Total for Category C	2,097	2,247	36,852
KPI for Category C			
90% in 42 days	99%	99%	98%
100% in 60 days	100% in 60 days	99%	99%

TEST AND DEVELOPMENT (T&D) LICENCES

	Licences issued April 10 – March 11	Licences issued April 09 – March 10	Total on issue as at 31 March 11
Non-Operational Development Licence	352	329	326
Non-Operational Temporary Licence	129	124	34
Total for T&D	481	453	360
KPI for T&D (100% in 60 days)	100%	100%	–

MOBILE AND WIRELESS BROADBAND LICENCES (1)

Licences issued through spectrum auction or award processes	Licences issued April 10 – March 11	Licences issued April 09 – March 10	Total on issue as at 31 March 11
Public Wireless Networks (2)	–	–	4
3G Cellular Telephones	–	–	5
Broadband Wireless Access 3.5 GHz, 3.6 GHz and 28 GHz			17
Spectrum Access 412-414 MHz	–	–	1
Concurrent Spectrum Access 1781-1785 MHz	–	–	12
Spectrum Access 1785 MHz Northern Ireland	–	–	1
Spectrum Access 10-40 GHz	–	–	10
Spectrum Access 1452-1492 MHz	–	–	1
Total for Mobile and Wireless Broadband	–	–	51

(1) Licences varied and/or re-issued, or traded from one company to another, are not included in these figures.

(2) Previously 2G Cellular Telephones, varied on 6 January 2011 to allow UMTS(3G) use.

CHANNEL ISLANDS AND ISLE OF MAN LICENCES

Licence applications made via local regulators	Licences issued April 10 – March 11	Licences issued April 09 – March 10	Total on issue as at 31 March 11
2G Channel Islands and Isle of Man Cellular Telephones	–	–	8
3G Channel Islands and Isle of Man Cellular Telephones	–	1	9
Broadband Wireless Access Channel Islands and Isle of Man 3.4 / 3.6 / 10 and 28 GHz (1 licence surrendered)	–	–	10
Total for Channel Islands and Isle of Man	–	1	27

ANNEX

SPECTRUM LICENSING

DIGITAL DIVIDEND SPECTRUM LICENCES

SPECTRUM FREED UP FOR NEW USES AS A RESULT OF DIGITAL SWITCHOVER

DDR GI Licences issued through spectrum award processes	Licences issued April 10 – March 11	Licences issued April 09 – March 10	Total on issue as at 31 March 11
Spectrum Access DDR GI 541-55 MHz (Cardiff)	–	–	1
Spectrum Access DDR GI 758-766 MHz (Manchester)	–	–	1
Total for Digital Dividend licences	–	–	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.

NON-DISCRETIONARY SPECTRUM LICENCES

Partners' activity	Licences issued April 10 – March 11	Licences issued April 09 – March 10	Total on issue as at 31 March 11
JFMG issues licences for			
Programme-Making & Special Events	3,317	3,033	3,574
KPI for JFMG (100% in 7 days)	100%	100%	–
CAA issues licences for Aeronautical	13,508	16,948	14,140
KPI for CAA (100% in 7 days)	76%	77%	–
Total	16,925	19,981	17,714

TOTAL LICENCES – ALL CATEGORIES

Total number of licences – all categories	49,069	52,557	285,589
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GLOSSARY OF TERMS

2G. Second generation of mobile telephony systems. Uses digital transmission to support voice, low-speed data communications, and short messaging services.

3G. Third generation of mobile systems. Provides high-speed data transmission and supports multimedia applications such as full-motion video, video-conferencing and internet access, alongside conventional voice services.

BARB. Broadcasters Audience Research Board. The pan-industry body that measures television viewing.

BEREC. The Body of European Regulators in Electronic Communications.

Bit-rates The rate at which digital information is carried within a specified communication channel. Broadband speeds are commonly measured in Mbit/s.

Broadband. A service or connection generally defined as being 'always on' and providing a bandwidth greater than narrowband.

Bundling. A marketing term describing the packaging together of different communications services by organisations that traditionally offered only one or two of those services.

Catch-up TV. Usually refers to a service that allow consumers to watch or listen to content on a non-linear basis after the initial broadcast.

Communications Act. Communications Act 2003, which came into force in July 2003.

Community Radio. Refers to radio stations that typically cover a small geographical area with a coverage radius of up to 5km and run on a not-for-profit basis.

DAB. Digital audio broadcasting. A set of internationally-accepted standards for the technology by which terrestrial digital radio multiplex services are broadcast in the UK.

DCMS. Department for Culture, Media and Sport.

Digital switchover. The process of switching over the analogue television or radio broadcasting system to digital.

Dongle. A physical device, attached to a PC's USB port, which adds hardware capabilities.

DSL. Digital subscriber line. A family of technologies generally referred to as DSL, or xDSL, capable of transforming ordinary phone lines (also known as 'twisted copper pairs') into high-speed digital lines, capable of supporting advanced services such as fast internet access and video on demand. ADSL, HDSL (high data rate digital subscriber line) and VDSL (very high data rate digital subscriber line) are all variants of xDSL).

DTT. Digital terrestrial television. The television technology that carries the Freeview service.

Fibre-to-the-cabinet Access network consisting of optical fibre extending from the access node to the street cabinet. The street cabinet is usually located only a few hundred metres from the subscriber premises. The remaining segment of the access network from the cabinet to the customer is usually a copper pair but could use another technology, such as wireless.

Fibre-to-the-home. A form of fibre optic communication delivery in which the optical signal reaches the end user's living or office space.

Fibre-to-the-building. A form of fibre-optic communication delivery in which an optical fibre is run directly onto the customer's premises.

HDTV. High-definition television. A technology that provides viewers with better quality, high-resolution pictures.

Headline connection speed. The theoretical maximum data speed that can be achieved by a given broadband. A number of factors, such as the quality and length of the physical line from the exchange to the customer, mean that a given customer may not experience this headline speed in practice.

HSPA. Jointly, downlink and uplink mobile broadband technologies are referred to as HSPA (High Speed Packet Access) services.

Internet. A global network of networks, using a common set of standards (e.g. internet protocol), accessed by users with a computer via a service provider.

ISP. Internet service provider. A company that provides access to the internet.

Leased line. A transmission facility which is leased by an end user from a public carrier, and which is dedicated to that user's traffic.

LLU (local loop unbundling). LLU is the process whereby the incumbent operators (in the UK it is BT and Kingston Communications) make their local network (the lines that run from customers premises to the telephone exchange) available to other communications providers. The process requires the competitor to deploy its own equipment in the incumbent's local exchange and to establish a backhaul connection between this equipment and its core network.

Local Loop. The access network connection between the customer's premises and the local PSTN exchange, usually a loop comprised of two copper wires.

LTE. (Long-term evolution). Part of the development of 4G mobile systems that started with 2G and 3G networks.

Mobile Broadband. Various types of wireless high-speed internet access through a portable modem, telephone or other device.

Net neutrality. The principle that all traffic on the internet should be treated equally, regardless of content, site or platform.

Next generation core networks (NGN). Internet protocol-based core networks which can support a variety of existing and new services, typically replacing multiple, single service legacy networks.

Next generation access networks (NGA). New or upgraded access networks that will allow substantial improvements in broadband speeds and quality of service compared to today's services. This can be based on a number of technologies including cable, fixed wireless and mobile. Most often used to refer to networks using fibre optic technology.

Peer-to-peer (P2P) distribution. The process of directly transferring information, services or products between users or devices that operate on the same hierarchical level.

Product Placement. Where commercial broadcasters include paid-for references to products and services in some TV and radio programmes.

RAJAR. Radio Joint Audience Research – the pan-industry body which measures radio listening.

Service provider. A provider of electronic communications services to third parties, whether over its own network or otherwise.

Slamming. Where a consumer is switched to a different supplier of a communications service without consent.

Smartphone. A mobile phone that offers more advanced computing ability and connectivity than a contemporary basic 'feature phone'.

Telecommunications, or 'telecoms'. Conveyance over distance of speech, music and other sounds, visual images or signals by electric, magnetic or electro-magnetic means.

Text message. A short text-only communication sent between mobile devices.

Unbundled A local exchange that has been subject to local loop unbundling (LLU).

VoD (Video-on-demand). A service or technology that enables TV viewers to watch programmes or films whenever they choose to, not restricted by a linear schedule.

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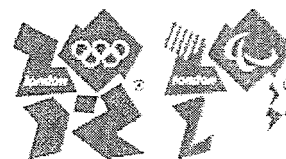
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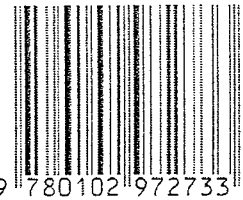
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