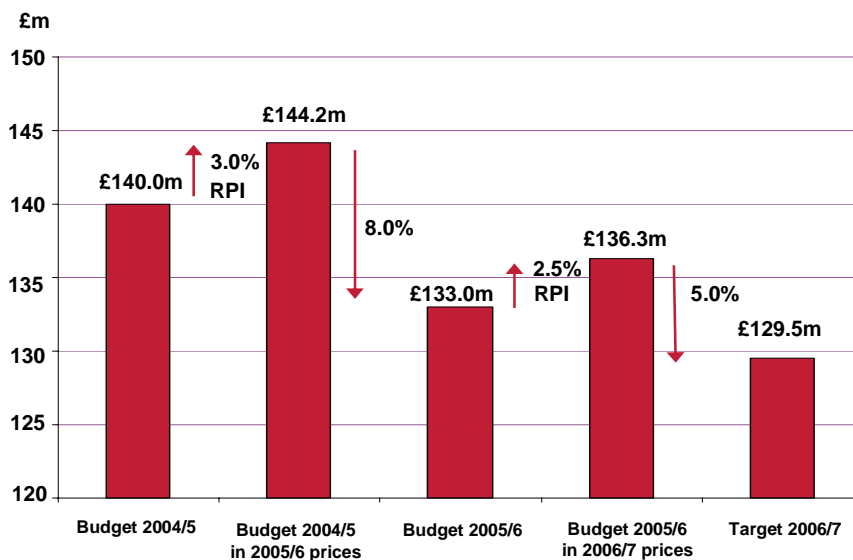


## Section 5

# Finance

- 5.1 Ofcom operates with a significantly lower headcount than the organisations which it replaced and with lower operating costs. In 2004/5, the budget was 5 per cent less in real terms than the previous regulators' combined budgets (on a like-for-like basis). In 2005/6, our budget was reduced by a further 8 per cent in real terms. In our first three years we have therefore made significant reductions in our costs.
- 5.2 We will continue to achieve cost savings in the two years to come. In 2006/7, our budget will be reduced by a further 5 per cent in real terms and we expect a further reduction in 2007/8. Figure 5.1 shows how our costs have fallen since 2004/5 and will fall again in 2006/7.

**Figure 5.1: Comparison of Ofcom's costs since 2004/5**



- 5.3 Our budget for 2006/7 will be £129.5m (excluding spend on spectrum awards and the Spectrum Efficiency Scheme<sup>2</sup>). This is a 2.5 per cent saving in nominal terms (5 per cent in real terms) on the budgeted expenditure for 2005/6. The budget is based on an adjusted cash basis, which includes capital expenditure but excludes depreciation.
- 5.4 The way in which we raise our funds reflects our three main areas of regulatory responsibility – networks and services, spectrum management and broadcasting, which is further split between TV and radio. Details of how our costs are allocated to these different areas are set out in a separate *Statement of Charging Principles*<sup>3</sup>.

<sup>2</sup> This is funded by the Treasury and administered by Ofcom.

<sup>3</sup> The statement of charging principles can be found at:  
[http://www.ofcom.org.uk/about/account/scp/charging\\_principles/cp/#content](http://www.ofcom.org.uk/about/account/scp/charging_principles/cp/#content)

## Repayment of Ofcom's set-up costs

5.5 During next year we will continue to pay down the loan made by the Department of Trade and Industry to cover Ofcom's set-up costs. These costs were incurred during the period March 2003 to January 2004. We must repay the £52.3m loan plus interest and recover this money from stakeholders. During 2006/7 the cost of repaying the loan will be £5.6m, a significant reduction on the £19m payable during 2005/6. By the end of 2007/8 the loan and interest will have been repaid. Figure 5.2 shows the repayment schedule in detail. The set-up costs were allocated to the different areas of regulatory responsibility on the basis of the former regulators' expenditure in each area.

**Figure 5.2: Ofcom's loan repayments, including interest**

	2003/4 £'000	2004/5 £'000	2005/6 £'000	2006/7 £'000	2007/8 £'000	Total £'000
Networks and services		2,723	2,592	2,672	2,560	10,547
Television		2,578	2,454	2,530	2,423	9,985
Radio		403	383	395	379	1,560
Other	7,328	13,948	13,425			34,701
<b>Total</b>	<b>7,328</b>	<b>19,652</b>	<b>18,854</b>	<b>5,597</b>	<b>5,362</b>	<b>56,793</b>

5.6 In addition to repaying the DTI's loan, by the end of 2007/8 we will have improved our efficiency by investing in major changes to our operating systems. The end of 2007/8 will therefore be a watershed. Ofcom will be well-established and, having achieved an acceptable level of operational efficiency, will be likely to have more stable funding requirements.

## Efficiency savings

5.7 Efficiency savings will continue to be made across the board. Many of our initiatives to improve efficiency started in 2004/5 and were fully implemented in 2005/6. In 2006/7 we will continue to make savings. In particular, we will be seeing further benefits from Project Unify, a three-year project to improve our information systems and processes that will run until 2007/8. We will invest £16m during this period to reduce spending on information systems to around £12m per annum, down from £22.5m in 2004/5.

5.8 The project has already borne tangible results, the in-sourcing of IT desktop support and infrastructure having led to an annual saving of about £3.2m. We are also making savings by streamlining our licensing processes.

5.9 There are other operational areas where we are seeking to improve our efficiency. Particular progress has been made in the following areas:

- in the Ofcom Contact Centre we are developing the principle of "service provider first", putting the onus on service providers to take responsibility for dealing with complaints;

- across Ofcom we are implementing an internal re-organisation to ensure that we have the right organisational structure to achieve our aims; and
- in Field Operations we are ceasing routine spectrum compliance inspections, focusing instead on targeted enforcement.

5.10 Looking ahead, we expect there to be a continued shift away from managing spectrum as this becomes increasingly subject to market mechanisms. This will change Ofcom's resource requirements, although the scale and pace of change will depend on how quickly markets develop.