Presented pursuant to [GRA] Act 2000 c20. S.6

Office of Telecommunications

Resource Accounts 2003

LONDON: The Stationery Office
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(For the period ended 29 December 2003)

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Contents

Annual Report

Background

The Office of Telecommunications (Oftel) was set up on 1 July 1984 under the Telecommunications Act 1984. Oftel was established as a non-ministerial Government department whose interests were represented in Parliament by the Secretary of State for Trade and Industry. Oftel ceased on 28 December 2003 under the provisions of the Communications Act 2003 which amongst other directives established the Office of Communications, Ofcom. Oftel's functions were transferred to Ofcom on Ofcom's vesting date of 29 December 2003.

Preparation of Accounts and Transfer of Functions

This is the final set of accounts for Oftel covering the period 1 April 2003 to 29 December 2003, and they have been prepared in accordance with an Accounts Direction issued by H.M Treasury. In accordance with the Government and Accounts Act 2000 (GRAA) they are required to show the resources acquired, held or disposed of during the period and the use of resources during the period.

On the closure of Oftel, its assets and liabilities were transferred to Ofcom. In order to satisfy the requirements of the GRAA, the balance sheet on closure at 29 December 2003 shows no balances and therefore reflects the position after the transfers were made. The position of the balance sheet immediately prior to Oftel's closure is shown at Note 11 of the accounts.

The functions of Oftel continue within Ofcom, and net assets of £2,000 were transferred to Ofcom on the closure of Oftel. The accounts are therefore prepared on a going concern basis.

Oftel's Aims and Objectives

During this final period, as before, the Director General of Telecommunications was responsible for the enforcement of telecommunications operators' licences and for initiating their modification where appropriate. His duties included the promotion of users' interests and of effective competition.

During the operating period Oftel aimed to obtain the best deal for consumers in quality and choice, and to ensure value for money was achieved primarily through promoting effectively competitive electronic communications markets. Oftel intervened to protect consumers where competition was insufficiently established or where special features of networks required intervention.

Oftel's objectives may be summarised as:

- effective competition – benefiting consumers;
- well informed consumers;
- adequately protected consumers; and
- prevention of anti-competitive practice.

Oftel's Principal Activities

In its final period Oftel remained focused on achieving the best deal for consumers in terms of quality, choice and value for money. Generally, industry trends during this period saw lower levels of investment compared to the previous five years. Although areas such as mobile telephony showed strong investment, the decline in investment in the fixed market appeared to be slowing.

Despite some improvement in the financial results of telecoms companies, there was still strong pressure for further regulatory intervention, particularly from competitors to BT, in both narrowband and broadband markets. This pressure focused mainly on getting access to more points of BT's network on cost-based terms.

As in 2002, Oftel responded with a proportionate approach:

- pursuing initiatives to promote competition, such as wholesale line rental, started prior to 2003;
- carrying out a programme of market reviews to establish the extent of competition in all the individual retail and wholesale telecoms markets as a major part of the implementation of new EU Directives; and
- dealing with and resolving individual interconnection disputes.

This proportionate approach to regulation meant that Oftel proposed to remove regulation from certain markets where, for the first time, no company was identified as having significant market power. For example, wholesale unmetered narrowband Internet termination and mobile outgoing calls and access.

However, where the market reviews identified significant market power, Oftel proposed to continue with initiatives to promote competition.

And in some areas the market reviews and activity in-year highlighted the need for continuing regulation. For example, the reviews mandated the continuation of the Flat Rate Internet Access Call Origination (FRIACO) product, which was created by regulatory requirement to enable competition in the supply of unmetered Internet access. Improvements to its operation were also made by a number of separate determinations in the course of the year.

Three further key features dominated Oftel's approach to its work in 2003:

1. Consumer protection

Oftel continued to ensure appropriate consumer protection measures were in place and worked with industry to achieve this, including:

- publishing a new strategy for deciding what consumer information should be produced, including guidelines to ensure this information produced is genuinely useful to consumers;
- introducing measures to protect consumers from nuisance calls by defining when it would use its new power to fine offending companies;
- giving the seal of approval to the Telecoms Ombudsman service (launched in January 2003 following earlier work by Oftel, the telecoms industry and consumer groups) and to a similar scheme run by the Chartered Institute of Arbiters;
- awarding the Oftel PASS (Oftel Price Assurance Standard) to the telephone price comparison website www.uswitch.com; and
- publishing regular reports on the number of complaints made to Oftel's Consumer Representation Section, highlighting the performance, by name, of telephone companies and Internet service providers.

2. Changes to the legislative framework

The year 2003 was a significant one for the telecoms industry as the new EU Directives that came into force in 2002 were implemented in the UK.

This represented a significant change in the regulation of telecoms across European member states, although Oftel's established strategy of appropriate regulation was already consistent with the underlying principles of the new framework.

Oftel continued in 2003 to work to implement the Directives and oversee the removal of telecoms licences that have been replaced by a series of general authorisations.

a) Implementation of EU Directives

Oftel spent much of the first half of 2003 preparing for the implementation of the new four EC Directives (Framework, Authorisation, Universal Service and Access) that had to be implemented by 25 July 2003.

Oftel issued several consultations and statements on key issues such as the new General Conditions and dispute resolution procedures.

The Directives were implemented on time, the principal provisions being contained in the Communications Act 2003. At the same time, Oftel reissued a number of documents revised to ensure that their provisions were consistent with the new requirements.

The new regime requires regulators to analyse relevant markets to identify the level of competition and where operators have significant market power, the regulator must impose appropriate regulation.

Therefore, Oftel conducted a series of market reviews throughout 2003 to analyse key markets. In October, Oftel finalised the first of the market reviews, on the market for calls from mobile phones. Further reviews covering the key communications markets were due to be completed by the end of the year. Oftel remained significantly further advanced with these reviews than any other European regulator.

In order that there was no break in regulation whilst the market reviews were being conducted, in July Oftel issued continuation notices to roll over existing regulation on a temporary basis whilst the reviews were under way.

A further Directive regarding data protection was implemented in the UK in late 2003.

b) End of telecoms licences

Another feature of the new regulatory regime was to replace individual telecoms licences with a series of general authorisations. Communications providers no longer need a licence to operate networks or provide services and the new authorisations set out the general regulations to which all network operators and service providers are subject.

Licence fees were also replaced by administrative charges which apply only to providers whose turnover from relevant activities in any year is £5 million or more.

The telecommunications code granted to certain licencees under the previous regime was also replaced by an electronic communications code.

3. The Communications Act 2003 and Ofcom

Throughout 2003 Oftel worked closely with Ofcom, the Independent Television Commission (ITC), the Broadcasting Standards Commission (BSC), the Radio Authority and the Radiocommunications Agency to ensure the new regulator was ready to take over responsibility for the communications industry at the end of 2003.

There were two clear strands of work. First, to create the organisational structure for Ofcom and put in place the necessary supporting business processes. And second, to appoint the staff that would work in the new regulator, the majority of which were drawn from the existing communications regulators. This work was overseen by the Ofcom Board, the Chief Executive Stephen Carter and the senior management team.

Although Ofcom did not assume its powers until 29 December 2003, Oftel kept Ofcom closely involved in decisions resulting from the implementation of the new EU Directives on communications.

Operational & Financial Review

A detailed review of Oftel's objectives and service delivery was presented in the final Annual Report (2003) published on 17 December 2003, and available from TSO and connected agencies.

In all aspects of its work, Oftel sought to achieve the high standards set out in its service delivery agreement targets agreed with the Treasury (published in November 2000). A summary of Oftel's performance against its targets is given below.

Target 1: To increase the extent to which the market is effectively competitive.

Oftel estimated that around 50 per cent of the retail telecoms market is competitive (up from 14 per cent in 2002/03). Areas of increased competition include: the market for mobile outgoing calls and access and international direct dial for business consumers.

Competition is delivering benefits to consumers. Prices fell or stayed flat for all the main retail services. The average price fall in the year to March 2003 was 6 per cent in real terms.

Target 2: To increase:

- the awareness among consumer of the choices available to them;
- the availability of useful information on price and quality comparisons; and
- the proportion of consumers making well-informed choices.

The proportion of consumers aware of the alternative suppliers for fixed line services was reported at levels similar to previous measure points (November 2002 and November 2000) except that customers in cabled areas exhibit better awareness in this respect; reported at an 80% awareness score.

Take-up of high-speed Internet access increased from 1.4 million at the end of 2002 to 2.2 million at end June 2003 and to 3 million by the end of 2003.

There are a number of industry funded initiatives and reports to help UK consumers be better informed purchasers of telecommunications services.

Target 3: All consumers protected by:

- effective competition or regulation where competition is not effective; and
- ensuring access to basic telecoms services.

Oftel monitored telecoms prices for a range of customer types, and this research indicated no real price increases for any significant group of customers in the year to February 2003.

The proportion of consumers who either have a fixed line or who are satisfied with their alternative means of telephony was around 99 per cent as at May 2003.

Target 4: Encourage and secure a reduction in significant anti-competitive practice by taking effective action.

Oftel introduced challenging new targets for resolving disputes about anti-competitive behaviour and other complaints in April 2003. In the period to end September 2003, Oftel's performance was as follows:

- disputes/non-Competition Act complaints dealt with within four month target - 93 per cent
- Competition Act complaints dealt with within the target timescales - 100 per cent

Performance against pre- 1 April 2003 targets was as follows:

- investigations closed within six months – 77 per cent (target – 80 per cent)
- investigations closed within 12 months – 100 per cent (target – 100 per cent)

In the first nine months of 2003 Oftel opened 15 cases under the Competition Act, compared to ten cases in 2002. Oftel complied with its *Competition Act strategy* of 1 July 2002 by investigating all cases, where behaviour could contravene both the Competition Act and the sectoral regime, under the Competition Act.

Oftel issued two Final Orders against companies demonstrating its commitment to providing a clear disincentive for breaching regulations.

Target 5: Spending on Oftel will deliver value for money.

In the three years to March 2003 Oftel's funding increased on average by 11 per cent per year in real terms. Over the same period, telecoms prices over a range of services fell on average by seven per cent per year in real terms. This means consumers have benefited from savings of nearly £4bn over the three year period.

Management

Oftel's head was the Director General of Telecommunications (DG). Mr David Edmonds was the appointed DG during the final period, continuing from previous years.

The Executive Board was chaired by the Director General and comprised:

Deputy D.G. and Director of Operations	Peter Waller
Director of Regulatory Policy	Phillip Rutnam (until 31 May 2003)
Director of Compliance	Chris Kenny (until 30 November 2003)

The DG was appointed under section 1 of the Telecommunications Act by the Secretary of State.

Other members of the Executive Board were members of the Senior Civil Service and were appraised and remunerated (including performance pay) in line with Senior Civil Service requirements. Remuneration for SCS members of the Executive Board is governed by:

- Job weight – JESP (Job Evaluation for Senior Posts);
- Market forces
- Internal relativities
- Skills and experience of the job holder
- Performance

Details of remuneration are included at Note 2 to the accounts.

Audit Committee

Oftel's Audit Committee, which was established in January 1999, was chaired by Neil Romain (Director of Finance at the Radio Authority). Other members included Oftel's Director of Operations, Director of Compliance, Director of Technology and Director of Business Support. The Head of Internal Audit and a representative of the external auditors (National Audit Office) attended by invitation. The Committee's role was to advise the Accounting Officer on the adequacy of audit arrangements (internal and external) and on the implications of assurances provided in respect of risk and control in Oftel. The Committee was formally discontinued as Oftel closed. However, individual members continued to act in a supportive, scrutinising role towards the final close of Oftel.

Equal Opportunities and Employment of Disabled Persons Policy

Oftel acted as an equal opportunity employer. The aim was to be fair to everyone; to ensure that no eligible job applicant, or employee received less favourable treatment on the grounds of gender, colour, race, nationality or ethnic or national origin, age, disability, religion, marital status, sexuality, part time working, caring responsibilities or political beliefs.

Payment of Suppliers

Oftel's policy was to comply with the Better Payment Practice Code. Oftel paid all invoices not in dispute within 30 days of either:

- Receipt of the invoice; or
- The agreed contractual terms if otherwise specified; or
- Satifactory receipt of the goods and services.

Based on invoices (not including staff claims) settled in the final operating period, Oftel settled 98.4% of its undisputed invoices within 30 days of receipt or within contractual terms stated on the invoice. The corresponding figures for 2002/03 and 2001/02 were 99.2 per cent and 99.3 per cent respectively.

Payment performance is calculated using Treasury guidelines.

Auditor

The Comptroller and Auditor General is the auditor of Oftel's Accounts. The audit opinion and report of the Comptroller and Auditor General are shown on pages 12 to 13.

The Department of Trade and Industry in partnership with Ernst and Young provided an internal audit service to Oftel.

Pension Liabilities

Employees (except the Director General) were covered by the provisions of the Civil Service Pension Scheme (PCSPS) which is non-contributory and non-funded. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS.

The Director General's pension is by analogy with the PCSPS. There was one scheme with a member in employment. The accruing cost of providing for the member's future benefits, which was based on actuarial advice, has been charged to the operating cost statement.

In addition, there was a closed pension scheme. The annual pension payable has been charged to the provision held in the balance sheet. Provision for expected future liabilities for the Director General's Pension Scheme has been disclosed as a liability on the balance sheet.

Post Balance Sheet Events

Oftel ceased to act as the regulator of the UK telecoms market on 28 December 2003. Ofcom assumed these powers as set out in the Communications Act 2003.

Subsequent to Oftel's cessation on 28 December 2003, David Edmonds continued to act as the Accounting Officer, although the post of Director General was formally discontinued. This arrangement enabled the formal discharge of accounting and reporting duties.

David Edmonds 31 August 2004
Accounting Officer

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, the department is required to prepare resource accounts for the financial period, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the period and the use of resources by the department during the period.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department, the net resource outturn, resources applied to objectives, recognised gains and losses, and cash flows for the period.

HM Treasury has appointed the Director General of Telecommunications as Accounting Officer of the department, with responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting.*

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control which supports the achievement of Oftel policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

2. 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 the principal risks to the achievement of Oftel policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control was in place in Oftel for the final period ended 28 December 2003, and it accorded with Treasury guidance. Since Oftel's closure basic controls have been in place sufficient to allow the discharge of remaining financial and accounting duties.

3. Capacity to handle risk

The department was committed to implementation of the requirements of the Turnbull Report. Oftel's Operations Board considered risk on a regular basis throughout the period.

4. The risk and control framework

In Oftel the main processes in place for identifying, evaluating and managing risk were incorporated into the policy making, planning and delivery mechanism requiring senior managers to prepare annual returns assessing risk.

5. Review of effectiveness

As Accounting 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 of the executive managers within Oftel who had responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

During the final period of the department's operations, internal controls were altered, developed and applied to reflect the changing environment and altered assessment of risk present.

The department established and applied the following processes:

- an operations board which met monthly to consider the plans and strategic direction of the department;
- a defined system of programme management whereby all programmes were identified to managers;
- standard templates for programme reporting which ensured connected risks were assessed, periodically revised, reported and managed accordingly;
- regular Internal Management Board meetings during which managers accounted for programme delivery and risk management within their areas;
- weekly meetings of senior staff to note and address risks identified during the period of flux;
- regular meetings of budget managers to consider financial and contractual risks in the light of the closing period;
- periodic reports from the Chairman of the Audit Committee, to the Board, concerning internal control, and;
- maintenance of defined communications, HR and training policies along established reporting lines and formally documented procedures to ensure controls remained robust into the ultimate closing phase of Oftel's operations.

In addition, the department recognised that risks were associated with the transfer of functions to Ofcom and developed an exit strategy, which identified the key tasks to be undertaken to ensure an orderly wind-up and transfer of assets, liabilities and obligations. Internal Audit reviewed and advised on the department's management of this project.

Subsequent to 28th December 2003, a residual team was tasked with overseeing the final settlement of liabilities and discharging formal accounting and reporting duties. The residual team vouched liabilities to be settled individually and, where necessary, liaised with former members of the Executive Board. The residual team reported directly to the Accounting Officer on major matters and maintained an open line of communication throughout the closure period.

David Edmonds 31 August 2004
Accounting Officer

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 14 to 36 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 19 to 21.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 9, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 10 to 11 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office of Telecommunications at 29 December 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the period then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

6 September 2004

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

SCHEDULE 1

Summary of Resource Outturn *(£000s)*

for the period ended 29 December 2003 (£000s)

	2003							**2002-03**
	Estimate			**Outturn**			Net Total Outturn Compared With Estimate:	
	Gross Expenditure	A in A	NET TOTAL	Gross Expenditure	A in A	NET TOTAL	Saving/ (excess)	Prior Year Outturn
Request for Resources 1 Note 5&8	20,163	(18,410)	1,753	**19,805**	(18,410)	**1,395**	**358**	18
Total Resources	20,163	(18,410)	**1,753**	**19,805**	(18,410)	**1,395**	**358**	**18**
Non-operating A in A (Note 5)	–	–	**–**	**–**	–	**–**	–	**–**
Net Cash Requirement	–	–	**143**	**–**	–	**13**	**130**	**–**

Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the department and is payable to the Consolidated Fund *(cash receipts being shown in italics)*:

	Forecast 2003		**Outturn 2003**	
	Income	*Receipts*	Income	*Receipts*
Total (Note 4)	–	–	**301**	***301***

Explanation of the variation between Estimate and Outturn (net total resources):

The underspend against the Estimate was related to the degree of uncertainty over the timing of Oftel's closure at the time that the main Estimates were prepared. During 2003 Oftel's closure date was set at 28 December 2003. There was also uncertainty as to the actual closure costs to be incurred at the time of the Supplementary Estimate.

Reconciliation of Resources to Cash Requirement

		2003		
	Note	Estimate	Outturn	Net Total Outturn Compared With Estimate; Saving (excess)
Net Total Resources		**1,753**	**1,395**	**358**
Capital:				
Acquisition of fixed assets	9	494	34	460
Non Operating A in A				
Proceeds of Fixed Asset Disposals		–	–	–
Accruals Adjustments:				
Non-cash items	3	(2,613)	(5,313)	2,700
Changes in working capital other than cash	10	502	3,893	(3,391)
Changes in creditors falling due after one year				
Use of provision	17	7	4	3
Net Cash Requirement (Schedule 4)		**143**	**13**	**130**

SCHEDULE 2

Operating Cost Statement

for the period ended 29 December 2003 (£000s)

	Note	2003		2002-03	
Administration costs:					
Staff costs	2	9,636		10,459	
Other Administration Costs	3	10,169		7,509	
Gross Administration costs			**19,805**		**17,968**
Transfer of Net Assets to Ofcom	11		2		–
Gross Administration Costs after Transfer to Ofcom			19,807		17,968
Operating Income	5		(18,698)		(18,672)
Net administration costs			**1,109**		**(704)**
Net Operating Cost(Income)	7&8		**1,109**		**(704)**
Net Resource Outturn	7&8		**1,395**		**18**

All income and expenditure are derived from continuing activities which have been transferred from Oftel to Ofcom.

Statement of Recognised Gains and Losses

for the period ended 29 December 2003 (£000s)

	2003	2002-03
Net gain on revaluation of tangible fixed assets	24	58
Total recognised losses and gains for the period	**24**	**58**

SCHEDULE 3

Balance Sheet

as at 29 December 2003 (£000s)

	Note		29 December 2003		31 March 2003
Fixed Assets					
Tangible Assets	12		–		**1,977**
Current Assets					
Debtors	13	–		1,294	
Cash at bank and in hand	14	–		3,939	
		–		**5,233**	
Creditors (due within one year)	15	–		(5,639)	
Net Current Assets/(Liabilities)			–		**(406)**
Total Assets less Current Liabilities			–		**1,571**
Provisions for Liabilities and Charges					
Redundancy Costs	16	–		–	
Other Provisions	17	–		(239)	
			–		**(239)**
			–		**1,332**
Taxpayers' Equity					
General Fund	18		–		1,227
Revaluation Reserve	19		–		105
			–		**1,332**

This balance sheet reflects the position on the closure of Oftel on 29 December 2003 after the transfer of assets and liabilities to Ofcom. Please refer to Note 11 for the balance sheet position immediately prior to the transfer of balances to Ofcom. Notes 12-19 disclose details of the individual balances transferred.

David Edmonds 31 August 2004
Accounting Officer

SCHEDULE 4

Cash Flow Statement

for the period ended 29 December 2003 (£000s)

	2003	2002-03
Net cash inflow from operating activities (Note A)	**1,223**	**1,898**
Capital expenditure and financial investment (Note B)	**(31)**	**(375)**
Other Amounts received – Competition Commission	**–**	**1,666**
Payments of amounts due to the Consolidated Fund	**–**	**(1,725)**
Financing (Note C)	**142**	**545**
Increase in cash in the period	**1,334**	**2,009**

Note A: Reconciliation of operating cost to operating cash flows

Net Operating Cost/(Income)	**1,109**	**(704)**
Transfer of Net Assets to Ofcom (see Note 11)	(2)	–
Adjust for non-cash transactions (see Note 3)	(5,313)	(1,084)
Adjust for movements in working capital other than cash (see Note 10)	2,979	(116)
Use of provisions	4	6
Net cash (inflow) from operating activities	**(1,223)**	**(1,898)**

Note B: Analysis of capital expenditure and financial investment

Tangible fixed asset additions	44	375
Proceeds of Fixed Asset Disposals	(13)	–
Net cash outflow from investing activities	**31**	**375**

Note C: Analysis of financing and reconciliation to the net cash requirement

From the Consolidated Fund (Supply): current year expenditure	142	545
Advances from the Contingencies Fund	9,000	13,000
Repayments to the Contingency Fund	(9,000)	(13,000)
Net financing	**142**	**545**
(Increase) in cash	**(1,334)**	**(2,009)**
Net cash flows other than financing	**(1,192)**	**(1,464)**
Adjust for payments and receipts not related to Supply:		
Amounts due to the Consolidated Fund Received in a prior year and paid over	–	(1,725)
Advances from the Contingencies Fund	9,000	13,000
Repayments to the Contingencies Fund	(9,000)	(13,000)
Amounts due to the Consolidated Fund – Received and not paid over	301	722
Other amounts received – Competition Commission	–	1,666
Excess cash to be CFER-ed	–	819
Excess cash payable to Ofcom	904	–
Net cash requirement (Schedule 1)	**13**	**18**

Amount of grant actually issued to support the net cash requirement = £142,000.00
Amount of grant actually issued to support the prior year net cash requirement = £545,000.00

SCHEDULE 5

Resources by Departmental Aim and Objectives

for the period ended 29 December 2003 (£000s)

Aim: To provide the best possible deal for the customer in terms of quality, choice and value for money.

	2003			2002-03 As restated		
	Gross	Income	Net	Gross	Income	Net
Objective 1	6,139	(5,796)	343	5,570	(5,788)	(218)
Objective 2	2,774	(2,619)	155	2,516	(2,615)	(99)
Objective 3	5,545	(5,235)	310	5,031	(5,228)	(197)
Objective 4	5,347	(5,048)	299	4,851	(5,041)	(190)
	19,805	(18,698)	1,107	17,968	(18,672)	(704)
Transfer of Net Assets to Ofcom (Note 11)	2	–	2	–	–	–
Net Operating Cost	**19,807**	**(18,698)**	**1,109**	**17,968**	**(18,672)**	**(704)**

The department's objectives were as follows:

Objective 1 – Effective competition.

Objective 2 – Well informed consumers able to take advantage of choice.

Objective 3 – Adequately protected consumers.

Objective 4 – Prevention of all significant anti-competitive practices.

Costs and income have been apportioned on the basis of time and resources applied within functional activities: overheads, support functions and unallocated resources have been apportioned on the same basis.

Capital is assumed to be employed exclusively for administration purposes. Its distribution between objectives is therefore not markedly different from the proportion of the related gross administration cost.

The Resources by Departmental Aim and Objectives analysis shown above is based on the first two quarters of the financial year. This was due to the closure of Oftel in December 2003.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2003-04 *Resource Accounting Manual (RAM)* issued by HM Treasury. The particular accounting policies adopted by the department are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Preparation of Accounts, Transfer of Functions and Going Concern

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

This is the final set of accounts for Oftel covering the period 1 April 2003 to 29 December 2003, and they have been prepared in accordance with an Accounts Direction issued by HM Treasury. In accordance with the Government and Accounts Act 2000 (GRAA) they are required to show the resources acquired, held or disposed of during the period and the use of resources during the period.

On the closure of Oftel, its assets and liabilities were transferred to Ofcom. The balance sheet on closure at 29 December 2003 shows no balances and therefore reflects the position after the transfers had been made. The position of the balance sheet immediately prior to Oftel's closure is shown at Note 11 of the accounts.

The functions of Oftel continue within Ofcom, and its assets and liabilities (giving net assets of £2,000) were transferred to Ofcom on the closure of Oftel. The accounts are therefore prepared on a going concern basis.

1.2 Tangible fixed assets

Oftel did not own any land or buildings. Following the reorganisation of the management of the Civil Estate on 1 April 1996, Oftel became a "minor occupier." Contributions were paid to the Crown Prosecution Service as "major occupier" from administration cost provision. During the final closure period to 28 December 2003 Oftel made arrangements to exit the agreement.

The minimum level for capitalisation of a tangible fixed asset was £750. An assessment was also made as to whether this missed certain groups of assets. If a group of items which was materially relevant was identified, those assets were included in the asset register as one asset.

Other tangible assets have been stated at current cost using appropriate indices. The Office for National Statistics provided two sets of indices. Firstly, a general Retail Price Index excluding mortgage interest payments and, secondly, the MM17 Computer and other information processing indices.

1.3 Depreciation

Depreciation was provided at rates calculated to write off the valuation of tangible fixed assets by equal instalments over their estimated useful lives as follows:

Telephone Equipment	8 to 15 years
Office Equipment	5 years
Computer Equipment	3 years
Furniture and fittings	4 to 7 years

1.4 Stocks

The full cost of stock purchases was charged in the year of purchase and is not material to the Account.

Notes to the accounts *(continued)*

1.5 Operating income

Operating income comprises licence fees recovered from the industry, and sundry charges for services provided to external customers. Operating income includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with the RAM is treated as operating income. Operating income is stated net of VAT.

1.6 Administration and programme expenditure

Administration costs reflect the costs of running Oftel as defined under the administration cost-control regime, together with associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administrative cost limit, and that operating income which is not.

Oftel had no programme costs.

1.7 Capital Charge

A charge, reflecting the cost of capital utilised by Oftel, is included in operating costs. The charge is calculated at the Government's standard rate of 3.5 per cent in real terms on the average carrying amounts of all assets less liabilities, except for cash balances with OPG and amounts due from or to be surrendered to the Consolidated Fund, where the charge is nil.

1.8 Foreign Exchange

Transactions denominated in a foreign currency have been translated into sterling at the exchange rate ruling on the date of each transaction. Such transactions are considered to be minimal and insignificant.

1.9 Pensions

Present and past employees (except the Director General) are covered by the provisions of the Civil Service Pension Schemes. The defined benefit elements of the scheme are non-contributory except in respect of dependants' benefits. The department recognised the expected cost of these elements on a systematic and rational basis over the period during which it benefited from employees' service by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of defined contribution elements of the schemes, the department recognised the contribution payable for the year.

Contributions were paid to the Paymaster General at rates determined by the Government Actuary and advised by the Treasury. For 2003-04 these rates were in the range 12-18.5 per cent of pensionable pay.

The Director General's pension is by analogy with the PCSPS. There was one scheme with one member in employment. In addition, Oftel recognised an ongoing payment stream in favour of a previous Director General (retired).

The accruing cost of providing for the member's future benefits is charged to the operating cost statement. Actuarial advice was sought to establish an appropriate contribution rate. The corresponding entry is to a provision in the balance sheet.

A further provision is made to reflect the expected ongoing payment stream in favour of the retired former Director General. More information on the schemes can be obtained from the Civil Service pensions website: www.civilservice-pensions.gov.uk .

1.10 Operating Leases

Operating lease rentals are charged to the operating cost statement in equal amounts over the lease term.

Notes to the accounts *(continued)*

1.11 Contingent Liabilities & Provisions

Oftel makes provision for liabilities and charges where, at the balance sheet date, a legal or constructive liability exists (i.e. a present obligation from past events), where the transfer of economic benefits is probable and a reasonable estimate can be made.

In addition to contingent liabilities disclosed in accordance with FRS 12, the department disclosed for parliamentary reporting and accountability purposes certain contingency liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- Items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement;
- All items (whether or not they arise in the normal in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

Where the time value of money is material, provisions and contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.12 Comparative Amounts

Comparative amounts are restated where necessary to conform to current presentation and reclassification. The comparatives shown cover the preceding twelve months to 31 March 2003 and are therefore not directly equivalent to the figures shown for the current period to 29 December 2003.

2. Staff numbers and costs

A. Staff costs consist of:

	2003	2002-03
	£000	£000
	Total	Total
Wages and Salaries	7,456	8,461
Social Security costs	694	677
Other Pension Costs	987	1,317
Sub Total	**9,137**	**10,455**
Inward Secondments	499	147
Total	**9,636**	**10,602**
Less recoveries in respect of outward secondments	–	143
Total Net Costs	**9,636**	**10,459**

The Principal Civil Service Pension Scheme (PCSPS) is a multi-employer defined benefit scheme but Oftel was unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2003, employer contributions of £987,476 were payable to the PCSPS (2002-03 £1,308,125) at one of the four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next two years, subject to revalorisation of the salary bands.

Notes to the accounts *(continued)*

Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when costs are incurred, and reflect past experience of the scheme.

Due to the closure of Oftel 49 employees were given voluntary redundancy or retirement in September 2003. These employees were paid till 28 December 2003 and given in lieu salary payments to cover the period to 31 March 2004.

B. The average number of whole-time equivalent persons employed (including senior management) during the year was as follows:

Objective	**2003** Number	**2002-03** Number
Effective competition	84	72
Well informed consumers able to take advantage of choice	28	32
Adequately protected consumers	68	66
Prevention of all significant anti-competitive practices	74	64
Total	**254**	**234**
Staff engaged on capital projects	–	–

C. The salary and pension entitlements of the most senior managers of Oftel were as follows:

Name and Title	**Age**	**Salary (as defined Below)**	**Real increase in Pension at age 60)**	**Total accrued pension at 60 at 29 December 2003**	**Benefits in kind (rounded to the nearest £100)**
2003-04	**Years**	**£000**	**£000**	**£000**	
David Edmonds Director General	59	115–120	0–2.5	10–15	19,600
Christopher Kenny *# = Director of Compliance	41	65–70	0–2.5	25–30	–
Phillip Rutnam + Director of Regulatory Policy	38	25–30	0–2.5	15–20	–
Peter Waller Deputy Director General	50	75–80	0–2.5	30–35	–

* opted to join premium
** opted to join classic plus
\# pension details assume maximum commutation of pension for lump sum
\+ Philip Rutnam left Oftel on 31 May 2003 as part of the managed migration to Ofcom.
= Christopher Kenny left Oftel on 30 November 2003 as part of a move to DTI.

(i) "Salary" includes gross salary; performance pay or bonuses; overtime; reserved rights to London Weighting or London Allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

David Edmonds was re-appointed for a period of three years from 1 April 2001 to 31 March 2004 unless the post of Director General was abolished before the end of that period. In the event of abolition he was entitled to receive compensation on a *pro rata* basis should the period of notice be less than six months. In line with this he was paid £41,290 compensation for the period from 29/12/03 to 31/3/04 for the salary he would have received (based on an annual salary of £160,000).

Notes to the accounts *(continued)*

Pension

(ii) Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based ‘final salary’ defined benefits scheme (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality “money purchase” stakeholder based arrangement with a significant employer contribution (partnership pension account).

a. Classic scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years’ pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member’s pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse’s pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

b. Premium scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member’s pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse’s pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member’s ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

c. Classic plus scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

d. Partnership pension account

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (in addition to the employer’s basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25 per cent of the fund as a lump sum.

More information on the schemes can be obtained from the Civil Service pensions website: www.civilservice-pensions.gov.uk

Notes to the accounts *(continued)*

The Director General's pension is by analogy with the PCSPS. There was one scheme with one member in employment. The accruing cost of providing for the member's future benefits is charged to the operating cost statement. Actuarial advice was sought to establish an appropriate contribution rate. In calculating liability, the following rates were used:

- Inflation 3.4 per cent pa.
- Rate of Increase in salaries 3.4 per cent pa.
- Rate of increase in pension payments and deferred pensions 3.4 per cent pa
- Rate used to discount the liabilities on the approved scheme 7 per cent.

There was one closed pension scheme (with one member). The annual pension payable is charged to the provision held in the balance sheet.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. David Edmonds had the use of a car and driver from home to office and occasional business use as provided for in his terms of employment.

Loans were made to staff in the period to facilitate the purchase of annual travel tickets, car parking fees and career development loans. As at 28 December 2003, £23,332 was outstanding from 82 staff.

3. Other administration costs

	2003	2002-03
	£000	£000
Rentals under operating leases:		
Rental of Shoe Lane Offices	134	183
Hire of plant and machinery	–	–
Other operating leases	1	1
Non-cash items: (Note a & b):		
Depreciation	588	864
Permanent diminution in value	4	25
Write-off & disposal of fixed assets	1,325	18
Cost of capital charge	8	103
Provisions made	3,368	45
Bad and doubtful debt	137	211
Auditor's remuneration and expenses *	33	29
Hospitality	41	27
Travel and Subsistence	122	169
Consultancy	1,256	1,743
Press and Publicity	125	222
Accommodation Related Costs	1,578	1,875
Advisory Committees	263	450
Twinning Project	2	176
Other expenditure	1,184	1,368
	10,169	**7,509**

*During the period there was no remuneration for non-audit work.

Note a – The total of non-cash transactions included in the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 comprises:

Notes to the accounts *(continued)*

	2003
	£000
Other administration costs – non-cash items (as above)	5,326
Add: other non-cash amounts charged to operating expenditure	–
Less non-cash income	
– deferred donation income released from the Donated Asset Reserve	–
– profit on sale of fixed assets	(13)
Total non-cash transactions	5,313

Note b – The total of non-cash items included in the Reconciliation of Resources to Net Cash Requirement comprises:

	2003
	£000
Total non-cash transactions as above	5,326
Adjustments for profits and losses on disposal of fixed assets	
– losses on disposal of tangible fixed assets	–
– losses on disposal of tangible fixed assets not covered by the Estimate	–
– profits on disposal of tangible fixed assets	(13)
Non-cash items per reconciliation of resources to net cash requirement	5,513

4. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Forecast 2003		**Outturn 2003**	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – excess A in A	-	-	288	*288*
Non-operating income and receipts – excess A in A	-	-	13	*13*
Subtotal	-	-	**301**	**301**
Other operating income and receipts not classified as A in A	-	-	-	-
Other non-operating income and receipts not classified as A in A	-	-	-	-
Other amounts collectible on behalf of the Consolidated Fund	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total	-	-	**301**	**301**

Outstanding amounts payable at 28 December 2003 will be paid to the Consolidated Fund by Ofcom.

Notes to the accounts *(continued)*

5. Income and Appropriations in Aid

Operating Income

Operating income not appropriated-in-aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 1.5). In 2003, all operating income not classified as Appropriations-in-aid was within public expenditure.

2003

	Resource Outturn	Reconciliation to Operating Cost Statement				Operating Cost Statement
	A-in-A	Transfer of estimate cover from other Depts	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between requests for resources	Income
	£000	£000	£000	£000	£000	£000
Administrative income:						
Transactions between Request for Resources	–	–	–	–	–	–
Allowable within admin. cost limit	4	–	–	–	–	4
Fees and charges to external customers	18,374	–	–	265	–	18,639
Fees and charges to other departments	32	–	–	–	–	32
Receipts from Assets	–	–	–	23	–	23
Transfer of function from other Depts:	–	–	–	–	–	–
– Estimate cover AinA	–	–	–	–	–	–
Total	**18,410**	**–**	**–**	**288**	**–**	**18,698**

2002-03

	Resource Outturn	Reconciliation to Operating Cost Statement				Operating Cost Statement
	A-in-A	Transfer of estimate cover from other Depts	Netted off gross expenditure in sub-head	Payable to Consolidated Fund	Transactions between requests for resources	Income
	£000	£000	£000	£000	£000	£000
Administrative income:						
Transactions between Request for Resources	–	–	–	–	–	–
Allowable within admin. cost limit	157	–	–	–	–	157
Fees and charges to external customers	17,692	–	–	722	–	18,414
Fees and charges to other departments	101	–	–	–	–	101
Transfer of function from other Depts:	–	–	–	–	–	–
– Estimate cover AinA	–	–	–	–	–	–
Total	**17,950**	**–**	**–**	**722**	**–**	**18,672**

Notes to the accounts *(continued)*

An analysis of income from services provided to external & public sector customers is as follows:

			2003			2002-03
	Income	Full Cost (after transfer)	Surplus/ deficit	Income	Full Cost	Surplus/ deficit
	£000	£000	£000	£000	£000	£000
Request for Resources 1	18,698	19,807	(1109)	18,672	17,968	704
	18,698	19,807	(1109)	**18,672**	**17,968**	**704**

Key to Request for Resources and functions:

Request for Resources 1 – Providing the best possible deal for telecommunications customers through effective competition.

6. Administration cost limits

The outturn within the administration costs control regime shown against individual administration cost limits is as follows:

	Outturn	2003 Limits	Outturn	2002-03 Limits
	£000	£000	£000	£000
Request for Resources 1 (Gross Limit)	**19,805**		**17,968**	
Total within administration cost control	**19,805**		**17,968**	
Other current expenditure excluded from administration cost limit:	**(1,176)**		–	
Administration Income Allowable within the administration cost limit	**(18,629)**		**(17,968)**	
Total administration outturn	**0**	**19,418**	**0**	**18,578**

7. Reconciliation of net operating cost to control total and net resource outturn

	2003	2002-03
	£000	£000
Net operating cost (Note a)	**1,109**	**(704)**
Remove non-supply expenditure (-) and income (+), including income scored as Consolidated Fund Extra Receipts (CFERs)		
Net assets transferred to Ofcom	**(2)**	
Operating income not classified as A in A	288	722
Net resource outturn (Note a)	**1,395**	**18**

Note a: Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to Parliamentary approval and included in the department's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

Notes to the accounts *(continued)*

8. Analysis of net resource outturn by function and reconciliation to Operating Cost Statement

	2003							2002-03
	Admin.	Other Current	Gross resource expenditure	A in A	Net Total	Estimate	Net total outturn compared with Estimate	Prior Year Outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1	19,455	350	19,805	(18,410)	**1,395**	1,753	**358**	18
Resource Outturn	**19,455**	**350**	**19,805**	**(18,410)**	**1,395**	**1,753**	**358**	**18**
Reconciliation to Operating Cost Statement								
Non-Supply expenditure	–	–	–					
Income payable to the Consolidated Fund	–	–	–	(288)	(288)			
Transactions between Request for Resources netted off in Operating Cost Statement	–	–	–					
Income netted off in gross sub-head grossed up in Operating Costs Statement	–	–	–					
Transfer of estimate cover	–	–	–					
Gross operating expenditure			19,805					
Transfer of Net Assets to Ofcom			2					
Operating income				(18,698)				
Net operating cost					1,109			(704)

Key to Request for Resources and functions:

Request for Resources 1 – Providing the best possible deal for telecommunications customers through effective competition.

Notes to the accounts *(continued)*

9. Analysis of capital expenditure, financial investment and associated A in A

	2003 Capital Expenditure	2003 A in A	2003 Net Total
	£000	£000	£000
Request for Resources 1	34	–	34
Total	**34**	**–**	**34**

	2002-03 Capital Expenditure	2002-03 A in A	2002-03 Net Total
	£000	£000	£000
Request for Resources 1	342	–	342
Total	**342**	**–**	**342**

10. Movements in working capital other than cash

The movements in working capital used in the reconciliation of resources to cash requirement comprise:

	2003	2002-03
	£000	£000
Increase in debtors (pre-transfer)	3,236	14
(Increase) in creditors falling due within one year (pre-transfer)	(247)	(1,763)
	2,989	**(1,749)**
Adjustments:		
Movement in working capital not related to net operating costs:		
Income in respect of Competition Commission costs	–	1,790
Competition Commission - outstanding debt	–	(124)
Amount payable to Ofcom	904	–
Net increase/(decrease) in working capital other than cash	3,893	(83)

The movements in working capital other than cash used in the Cash Flow Statement comprise:

	2003	2002-03
	£000	£000
Increase in debtors (pre transfer)	3,236	14
(Increase) in creditors falling due within one year (pre transfer)	(247)	(1,763)
	2,989	(1,749)
Adjustment: Movement in working capital not related to voted resource consumption	(10)	(33)
Income in respect of Competition Commission costs	–	1,790
Competition Commission - outstanding debt	–	(124)
Net (decrease) in working capital other than cash	2,979	(116)

Notes to the accounts *(continued)*

11. Pre-transfer Balance Sheet

as at 28 December 2003

The balance sheet below reflects the position immediately prior to the transfer of balances to Ofcom. On closure, net assets of £2,000 were transferred to Ofcom.

	Note	28 December 2003		31 March 2003	
		£000	£000	£000	£000
Fixed Assets					
Tangible Assets	12		**117**		**1,977**
Current Assets					
Debtors	13	4,530		1,294	
Cash at bank and in hand	14	5,273		3,939	
		9,803		**5,233**	
Creditors (due within one year)	15	(6,315)		(5,639)	
Net Current Assets/(Liabilities)			**3,488**		**(406)**
Total Assets less Current Liabilities			**3,605**		**1,571**
Provisions for Liabilities and Charges					
Redundancy Costs	16	(3,200)		–	
Other Provisions	17	(403)		(239)	
			(3,603)		**(239)**
			2		**1,332**
Taxpayers' Equity					
General Fund	18		2		1,227
Revaluation Reserve	19		–		105
			2		**1,332**

See notes 12-19 for details of the balances transferred to Ofcom.

Notes to the accounts *(continued)*

12. Fixed assets

	Telephone Equipment	Office Equipment	Information Technology	Furniture And Fittings	Total
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2003	158	112	1,846	2,474	4,590
Additions	–	8	26	–	34
Disposals	–161	–114	–1,582	–2,475	–4,332
Revaluations	3	2	–8	47	44
At 28 December 2003: pre-transfer to Ofcom	**–**	**8**	**282**	**46**	**336**
Depreciation					
At 1 April 2003	67	80	1,163	1,303	2,613
Charged in year	12	14	315	247	588
Disposals	–80	–91	–1,283	–1,552	–3,006
Revaluations	1	1	–4	26	24
At 28 December 2003: pre-transfer to Ofcom	**–**	**4**	**191**	**24**	**219**
Net Book Value at 28 December 2003 (pre-transfer to Ofcom)	**–**	**4**	**91**	**22**	**117**
Transferred to Ofcom	**–**	**4**	**91**	**22**	**117**
Net Book Value at 29 December 2003 (post-transfer to Ofcom)	**–**	**–**	**–**	**–**	**–**
Net book value at 31 March 2003	**91**	**32**	**683**	**1,171**	**1,977**

In accordance with the managed closure plans, Oftel sought to dispose of assets to yield the best advantage. Disposals included sales to third parties, and the inclusion of assets in the exit strategy from Oftel's premises at Ludgate Hill.

13. Debtors

	2003	**2002-03**
	£000	£000
Amounts falling due within one year:		
VAT – recoverable	159	178
Trade debtors	3,298	238
Deposits and advances	634	634
Other debtors	439	76
Prepayments and accrued income	–	168
Pre-transfer total	**4,530**	**1,294**
Transferred to Ofcom	**-4,530**	**n/a**
Post-transfer total	**–**	**1,294**

Trade Debtors of £3,298k includes a bad debt provision of £225k.

Included in Trade Debtors is £123,821 (£123,821 in 2002-03) which is due to the Consolidated Fund once the debts are collected.

Notes to the accounts *(continued)*

14. Cash at bank and in hand

	2003	2002-03
	£000	£000
Balance at 1 April	3,939	1,930
Net change in cash balances:	1,334	2,009
Balance at 28 December 2003 (pre-transfer)/31 March 2003	**5,273**	**3,939**
Transferred to Ofcom	**–5273**	**n/a**
Post-transfer balance	**–**	**3,939**

The following balances at 28 December 2003 are held at:

Office of HM Paymaster General	5,261	3,929
Commercial banks and cash in hand	12	10
Balance at 28 December 2003/ 31 March 2003	**5,273**	**3,939**
The balances at 28 December 2003 comprise:		
Excess cash payable to Ofcom	904	
Cash due to be paid to the Consolidated Fund:		
Amounts issued from the Consolidated Fund for Supply but not spent at year end	656	527
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	3,713	3,412
Other payments due to be paid to the Consolidated Fund	–	–
Other amounts collectable on behalf of the Consolidated Fund	–	–
	5,273	**3,939**

15. Creditors: amounts falling due within one year

	2003	2002-03
	£000	£000
Other taxation and social security	1	–
Trade creditors	–	88
Other creditors	26	17
Accruals	1,795	1,471
Amounts issued from the Consolidated Fund for Supply but not spent at year end	656	527
Consolidated Fund extra receipts received and receivable and due to be paid to the Consolidated Fund	3,837	3,536
Pre-transfer total	**6,315**	**5,639**
Transferred to Ofcom	**(6,315)**	**n/a**
Post-transfer total	**–**	**5,639**

Amounts due to the Consolidated Fund are payable by Ofcom.

16. Provision for Redundancy Costs

As a part of the planned closure and transfer to Ofcom, a number of Oftel staff members accepted a redundancy package. The financial impact has been recognised in Oftel's final accounts and pre-transfer balance sheet (note 11) as a provision for the amount of £3,200,000. On Oftel's closure the provision and liability to make payments transferred to Ofcom.

Notes to the accounts *(continued)*

17. Other Provisions for other liabilities and charges

	Pensions Commitments	Other Provisions	Total
	£000	£000	£000
Balance at 1 April 2003	239	-	239
Provided in the year	75	93	168
Amounts utilised in year	–4	–	–4
Balance at 28 December 2003 (pre-transfer)	310	93	403
Transferred to Ofcom	–310	–93	–403
Balance at 29 December 2003 (post-transfer)	–	–	–

Pension commitments arise due to the current and past Director Generals' pension arrangements, which are by analogy with the PCSPS and were paid directly from Oftel's own resources.

Provision is made for the future payment streams arising from the outgoing Director General and a former holder of the post in receipt of pension payments.

The accruing cost of providing for future benefits is charged to Oftel's operating cost statement. Actuarial advice was sought to ensure that the provision was set at a realistic level. The assumptions made in calculating the liability are set out in Note 2C.

Other provisions include amounts to cover the agency costs of the residual Finance team required to complete the closure of Oftel, and estimated costs associated with a legal action outstanding against Oftel.

18. Reconciliation of net operating cost to changes in General Fund

		2003		2002-03
	£000		£000	
Net operating cost for the year (Schedule 2)	**(1,109)**		**704**	
Income not appropriated-in-aid payable to Consolidated Fund	(301)		(722)	
		(1,410)		**(18)**
Net parliamentary funding		669		545
Transferred to General Fund of realised element of Revaluation Reserve (Note 18)		129		25
Consolidated Fund creditor for cash unspent – NCR not needed		(656)		(527)
Consolidated Fund creditor for cash unspent – Excess Cash		–		(819)
Settlement of previous year creditor for cash unspent		–		–
Non cash charges:				
Cost of Capital	8		103	
Auditor's remuneration	33		29	
		41		132
Net decrease in General Fund		**(1,227)**		**(662)**
General Fund at 1 April 2003		1,227		1,889
General Fund at 29 December 2003 /31 March 2003		**–**		**1,227**

Notes to the accounts *(continued)*

19. Reserves

	2003 Revaluation Reserve	2002-03 Revaluation Reserve
	£000	£000
Balance at 1 April 2003	105	72
Arising on revaluation during the year (net)	24	58
Transferred to General Fund in respect of realised element of Revaluation Reserve	(129)	(25)
Balance at 28 December 2003	**–**	**105**

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

20. Commitments under operating leases

As a part of Oftel's managed closure, the main commitment in respect of premises was formally terminated. A residual commitment in respect of a small, minor satellite office premises proved harder to exit satisfactorily and these premises, along with the financial commitment, transferred to Ofcom under the formal Transfer Scheme. The annual financial commitment outstanding as at 28 December 2003 (and therefore transferred to Ofcom) is £213k. The lease is due to expire within one and five years (in Summer 2005).

No other significant operating leases were outstanding on closure.

21. Contingent Liabilities disclosed under FRS 12

The Department entered into a contract whereby consideration is required should the contract be terminated through no fault on part of the contractor. Following a competitive tendering exercise, a company was appointed to run an opt-out scheme. It is self-financing (i.e. no expenditure by Oftel) but the contract allows the contractor to recover from Oftel any loss if the contract is terminated through no fault of the contractor (for example, a change in Government policy). The contract does not allow for the loss of profit and the contractor is under duty to mitigate loss once termination notice is given. An amount of £80,000 has been identified as a potential liability.

22. Losses Statement

Invoiced debtors (in respect of licence fees invoiced) to the value of £125,000 (27 cases) were written off during the period, having been categorised as uncollectible as a result of corporate receiverships or similar evidence.

Oftel paid £50,000 to develop a numbering database for which no deliverable has been received. As a result of the closure of Oftel, the outcome of the contract is uncertain and there appears to be a constructive loss of £50,000. A bad debt of £9,500 relating to a project based in Poland was also written off.

No further significant losses were incurred other than those noted and disclosed above.

Notes to the accounts *(continued)*

23. Related party transactions

There have been a small number of transactions with other Government departments and other central Government bodies. Most of these transactions have been with the Department of Trade and Industry and the Office of Communications.

None of the Senior Management Team, key managerial staff or other related parties, including relevant seconded and residual staff, undertook any material transactions with Oftel during the period.

The Director General, David Edmonds, was appointed as a member of Ofcom's Board on

25 September 2002 for a period of three years. He is also Chairman of Ofcom's Finance Committee.

24. Financial Instruments

FRS 13, Derivatives and Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months of the balance sheet date have been omitted from the currency profile.

Liquidity Risk
Oftel operates on a full cost recovery basis and is financed primarily by licence fee income. Specific and limited areas of operation may be directly funded by grants of supply approved annually by Parliament. The extent to which licence fee and other income may be raised and retained for use in operations (Appropriated in Aid) is also approved by annual vote of Parliament, along with further grants of supply needed to meet Oftel's Net Cash Requirement. Oftel is not exposed to significant liquidity risks.

Interest Rate and Foreign Currency Risks
Oftel has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or foreign currency risk.

Fai Values
Set out below is a comparison by category of book and fair values of Oftel's financial assets and liabilities prior to the transfer to Ofcom:

	Book value	Fair value	Basis of fair valuation
	£000	£000	
Primary Financial Instruments			
Financial Assets			
Cash at bank	5,273	5,273	–

Post-transfer of assets and liabilities to Ofcom there are no financial assets or liabilities held by Oftel.

Notes to the accounts *(continued)*

25. Actual Outturn - resources and cash

Actual Outturn – resources:
Request for Resources1: Actual amount net resources outturn is £1,395,397.88. Actual amount of savings in resource over Estimate is £358,602.12

Actual outturn – cash
Net cash requirement: Outturn net requirement is £13,000 which is £130,000 less than Estimate. The actual cash surrenderable to the Consolidated Fund is £301,295.63

26. Post-Balance Sheet Events

Following the formal closure of Oftel on 28th December 2003, functions were transferred to Ofcom, and staff either migrated or exited. Although Oftel ceased formally, a small residual team was retained by Ofcom to administer the final accounting and reporting tasks. Mr David Edmonds (the outgoing Director General) has remained as the Accounting Officer and has overseen the residual financial actions.

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