



Section 400 Licence Fees and Penalties Account

Year ended 31 March 2017

Contents

	Page
Section 400 Accounts: Review of 2016/17	2
Statement of Ofcom's Responsibilities with respect to the Financial Statements	5
The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament	6
Receipts and Payments Account	8
Statement of Cash Balances	9
Notes to the Accounts	10

SECTION 400 ACCOUNTS: REVIEW OF 2016/17

Background

Under Section 400 of the Communications Act 2003, Ofcom is required to collect fees and payments. The revenue collected is from four sources:

- Wireless Telegraphy Act licence fees;
- Additional Payments from television and radio licensees;
- Financial Penalties; and
- Geographic Numbering.

These monies were passed to the UK Consolidated Fund at HM Treasury, the Department of Finance and Personnel - Northern Ireland (DFPNI) and to the Treasuries of the Isle of Man, the Bailiwick of Jersey, and the Bailiwick of Guernsey under Statutory Instrument 1991, Numbers 998, 1710 and 1709 respectively, directly or via the Department for Culture, Media and Sport (DCMS) as Ofcom's sponsoring body.

In total Ofcom passed £376.7m (2015/16: £270.0m) to the public purse.

Wireless Telegraphy Act licence fees

In 2016/17 there were 339,891 (2015/16: 333,850) Wireless Telegraphy Act (WT Act) licences on issue. WT Act licences are held by a wide variety of spectrum users, from taxi companies and amateur radio providers to mobile phone operators and television and radio broadcasters.

In 2016/17 Ofcom passed £367.3m (2015/16: £265.6m) collected from WT Act licensees and the interest earned on any cash balances held to DCMS. The higher fees in 2016/17 relates to increase in Annual License Fees paid by mobile operators for the public wireless networks.

Additional Payments

Holders of the Channel 3 and Channel 5 television licences and the national radio and additional services licences are required to make additional payments to Ofcom. These payments are made up of two components: an annual fixed payment (known as cash bids); and a fee based on a percentage of the broadcasters' advertising and sponsorship revenue associated with broadcasting on analogue spectrum (known as percentage of qualifying revenue, PQR).

In 2016/17 Ofcom received £1.1m (2015/16: £1.0m) in additional payments from broadcasters. The cash bid element totalled £0.7m (2015/16: £0.7m) and payments generated from the percentage of qualifying revenue were £0.4m (2015/16: £0.3m).

In February 2014 Ofcom announced that it had renewed the Channel 3 and Channel 5 licences for a further ten years from 1 January 2015. This renewal followed the acceptance of licence terms by the Channel 3 and Channel 5 licensees. Ofcom determined that the financial terms for each licence in the renewed period would be set an annual cash bid of £10,000 and a 0% PQR. The cash bid amount will increase by RPI each year. Details of the financial terms can be found on the Ofcom website at:

<http://stakeholders.ofcom.org.uk/broadcasting/tv/c3-c5-financial-terms>

The Legislative Reform Order 2015 (Further Renewal of Radio Licences) came into force on 15 December 2015. There are three national radio licences (held by Classic FM, Absolute Radio and Talksport) and this legislation enables their further renewal for a period of five years. Ofcom is required to determine new financial terms to facilitate this renewal. On 3 February 2017 Ofcom announced that it had determined financial terms for the national radio licences held by Classic FM and Absolute Radio for their five-year renewal period. The financial terms were a cash bid of £10,000

and a 0% PQR. We expect to review the financial terms for the national radio licence held by Talksport before the end of 2017. Details of the financial terms can be found on the Ofcom website at: <https://www.ofcom.org.uk/consultations-and-statements/category-3/renewal-independent-national-radio-licences>.

The additional service licence expires in February 2018. On 27 February 2017 Ofcom published an advertisement inviting applications for an additional service licence for the period to February 2022. The licence will be awarded by auction. The closing date for applications is 31 May 2017 and we intend to award the new licence in the Summer of 2017. Details of the licence advertisement can be found on the Ofcom website at:

<https://www.ofcom.org.uk/consultations-and-statements/category-2/advertisement-of-a-national-radio-additional-services-licence>.

Financial penalties

Under the Communications Act 2003 and the Broadcasting Act 1990 and 1996, Ofcom has the power to fine individuals and organisations for breaches of a code or licence terms. During 2016/17, Ofcom issued fines totalling £50.6m (2015/16: £1.4m), of which £42.3m relates to a BT fine issued at the end of March. BT paid this in April and Ofcom subsequently transferred it to the consolidated funds in May.

Fines totalling £7.4m (2015/16: £2.0m) were collected in 2016/17. A large proportion of these, related to the handling of customer complaints and inaccurate billing in the telecoms sector.

A list of penalties imposed during 2016/17 is published on Ofcom's website and can be found at:

https://www.ofcom.org.uk/data/assets/pdf_file/0031/96943/financial-penalties-imposed-for-the-period-01042016-to-31032017.pdf

Section 400 Licence Fees and Penalties do not form part of Ofcom's reported revenue, and all receipts on the face of these accounts were excluded from revenue in Ofcom's Financial Statements. All monies were passed to UK Consolidated Fund at HM Treasury and, where appropriate, to the DFPNI, and the Treasuries of the Isle of Man, Jersey and Guernsey.

Geographic Telephone Numbers

Ofcom has a duty under section 63(1) of the Communications Act 2003 to secure that the best use is made of numbers and to encourage efficiency and innovation for that purpose. Ofcom's power to charge for the allocation of geographic numbers is based principally on section 58(1)(g) of the Act and is implemented by way of requirements in the General Condition relating to the allocation, adoption and use of telephone numbers (General Condition 17).

On 1 April 2013 Ofcom launched a pilot scheme to charge communications providers ('CPs') for geographic numbers allocated to them by Ofcom in 30 specified area codes. The charges were introduced to incentivise CPs to use numbers more efficiently.

The pilot scheme is currently under review and Ofcom published a consultation on proposals for geographic number charging on 28 October 2016. We aim to publish the outcome of the review during the first half of 2017/18. Charging for geographic numbers under the current scheme will continue until any changes are made because of our review.

The annual charging year runs from 1 April to 31 March and invoices are generated one year in arrears. In 2016/17 Ofcom collected £1.4m (2015/16: £1.4m) and transferred £0.9m to the public purse in the same financial year. The balance of £0.5m was transferred in May.

OFFICE OF COMMUNICATIONS
SECTION 400 LICENCE FEES AND PENALTIES ACCOUNTS 2016/17

Auditors

These financial statements are audited by the Comptroller and Auditor General. The Accounting Officer has made the National Audit Office aware of all relevant audit information. The auditor's remuneration of £0.01m for Section 400 audit is reported in the main Ofcom corporation accounts.

Sharon White
Chief Executive

Office of Communications
Riverside House,
2A Southwark Bridge Road
London SE1 9HA

Date: 13 June 2017

STATEMENT OF OFCOM'S RESPONSIBILITIES WITH RESPECT TO THE FINANCIAL STATEMENTS

Under Section 400(4) of the Communications Act 2003 Ofcom is required to prepare a statement of accounts for each financial year in respect of the Licence Fees and Penalties listed in Section 400(1), and the payment of such receipts to the Consolidated Funds of the United Kingdom and Northern Ireland respectively. The accounts also show payments to the Treasury of the Bailiwick of Jersey, the Treasury of the Bailiwick of Guernsey, and the Treasury of the Isle of Man.

The accounts are prepared on a cash basis and must properly present the receipts and payments for the financial year, and the cash balances held at the beginning and end of the year.

As the senior full time official of Ofcom, the Chief Executive is the Accounting Officer for these accounts. Her relevant responsibilities as Accounting Officer include responsibility for the propriety and regularity of the public finances for which she is responsible and for the keeping of proper records. The Chief Executive has specific responsibilities for ensuring that the terms of the Financial Memorandum issued by the Secretaries of State are complied with.

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 2017 under the Communications Act 2003. The financial statements comprise: the Receipts and Payments Account, Statement of Cash Balances, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of Ofcom, the Accounting Officer and Auditor

As explained more fully in the Statement of Ofcom's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Communications Act 2003. My responsibility is to audit, certify and report on the financial statements in accordance with the Communications Act 2003. 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 circumstances of the Section 400 Fees and Penalties Account 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 Section 400 accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the receipts and payments recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements properly present the receipts and payments of the Office of Communications Section 400 Fees and Penalties Account for the year ended 31 March 2017; and
- the financial statements have been properly prepared in accordance with the Communications Act 2003 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- The information given in Section 400 Accounts: Review of 2016/17 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 returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse
Comptroller and Auditor General**

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

Date: 29 June 2017

RECEIPTS AND PAYMENTS ACCOUNTS
for the year ended 31 March 2017

	Notes	Year Ended 31 March 2017 £'000	Year Ended 31 March 2016 £'000
Payments under the Wireless Telegraphy Act 1998 (c.6)	2A	260,258	118,691
Fees received from Government Departments (GD)	3	111,187	146,577
Interest Received on WT Act and GD receipts		16	18
WT Act Auction Receipts	2B	-	-
Interest Received on Auction Receipts	2B	-	-
TOTAL SPECTRUM FEE PAYMENTS RECEIVED		371,461	265,286
Additional Payments by licensees	4	1,072	1,014
NET ADDITIONAL PAYMENTS BY LICENSEES		1,072	1,014
Financial Penalties	6	7,385	2,043
Geographic Numbering Receipts	7	1,398	1,387
TOTAL RECEIPTS FOR THE YEAR		381,316	269,730
WT Act Payments to DCMS	2A & 5	(367,329)	(265,571)
WT Act Auction Payments to DCMS	2B	-	-
Payments to the United Kingdom Consolidated Fund		(9,112)	(4,350)
Payments to the Northern Ireland Consolidated Fund		(217)	(75)
Payments to the Treasury of the Isle of Man		(11)	(3)
Payments to the Treasury of the Bailiwick of Jersey		(18)	(10)
Payments to the Treasury of the Bailiwick of Guernsey		(12)	(6)
NET PAYMENTS TO CONSOLIDATED FUNDS AND TREASURIES		(9,370)	(4,444)
TOTAL PAYMENTS FOR THE YEAR		(376,699)	(270,015)
(DEFICIT)/EXCESS OF RECEIPTS OVER PAYMENTS FOR THE YEAR		4,617	(285)

STATEMENT OF CASH BALANCES
as at 31 March 2016

	31 March	31 March
Notes	2017	2016
	£000	£000
Balance at beginning of the year	3,827	4,112
Excess/(Deficit) of receipts over payments for the year	4,617	(285)
Balance at end of year	8,444	3,827
TOTAL CASH BALANCE	8,444	3,827
CASH BALANCE OWED TO		
UK Department of Culture, Media and Sports	7,958	3,827
Consolidated Funds and Treasuries	486	0
8	8,444	3,827

The Notes on pages 10 to 12 form part of these accounts.

Sharon White
Chief Executive
Office of Communications

Date: 13 June 2017

NOTES TO THE ACCOUNTS

For the year ended 31 March 2017

1. Basis of Accounting

These accounts are prepared on a receipts and payments basis in accordance with the provisions of Section 400(4) of the Communications Act 2003. They also show the amounts paid to the Treasury of the Isle of Man, the Treasury of the Bailiwick of Jersey, and the Treasury of the Bailiwick of Guernsey under Statutory Instrument 1991, Nos. 998, 1710, and 1709 respectively.

2. Payments under the Wireless Telegraphy Act 1998

Section 400(2) of the Communications Act requires that, subject to any refunds and the retention of funds to cover costs as described in Note 5, all amounts from the list in Section 400(1) paid to Ofcom, including payments under the Wireless Telegraphy Act 1998 (c.6), should be passed to the appropriate Consolidated Fund. The exception to this is Wireless Telegraphy Act receipts, which are paid to DCMS, as directed by the Treasury in accordance with its powers under the Government Resources and Accounts Act 2000 and the annual Appropriation Act.

2A. WT Act licence fees

In the period of these accounts, £256.1m (2015/16: £119.0m) was paid to DCMS in respect of spectrum fees received including interest earned on cash balances held. The increase includes revised annual fees for mobile operators, effective from October 2015 and October 2016. Full details of the new annual licence fees can be found on the Ofcom website at:

<http://media.ofcom.org.uk/news/2015/annual-licence-fees-mobile-spectrum/>

2B. Wireless Telegraphy Act - Licence Fees received from the Auction of spectrum

No spectrum auctions took place in 2016/17 (2015/16: nil).

In 2017/18, we intend to proceed with an auction of the 2.3 and 3.4 GHz spectrum bands, which have been released to Ofcom under the Government's Public Sector Spectrum Release programme.

3. Fees Received from Government Departments

Under Section 163 of the Communications Act, Ofcom receives fees for spectrum use from certain Government departments. These are not Wireless Telegraphy Act payments, but are in all respects treated in the same manner as described in these notes for cash received from commercial licensees. During the period under review, invoices totalling £111.2m were issued and paid (2015/16: £146.6m) by Government departments. The reduction is due to the release of spectrum previously held by Government departments and revision of fees, as set by HM Treasury. The total fees received have been included in these accounts, although this is not specifically required by Section 400 of the Communications Act.

4. Additional Payments

Additional payments made by television licensees are stated after the deduction of digital terrestrial and multi-channel penetration percentage rates to the qualifying revenue. This is set out in the Qualifying Revenue and Multiplex Revenue statement which can be found on Ofcom's website at

http://stakeholders.ofcom.org.uk/binaries/broadcast/other-codes/qualifying_revenue.pdf

5. Sums Retained from Wireless Telegraphy Act Payments

Under Section 401 of the Communications Act, Ofcom has the power, subject to Treasury approval, to make a statement of principles under which any or all of the amounts collected under the Wireless Telegraphy Act can be retained to offset the costs of carrying out the spectrum functions detailed in subsection 401(4) of the Act.

To date, no sums have been retained for this purpose. Instead, during the year under review, grants totalling £70.8m (2015/16: £56.7m) were received from DCMS under the legislative powers referred to in Note 2, to cover the costs of spectrum management and Spectrum Clearance and Awards Programme. A full disclosure of the Grant in Aid figures can be found in the Ofcom main accounts.

At the end of 2016/17 there was unused grant of £0.3m (2015/16: £2.4m) to be carried forward into 2017/18.

A statement of the net spectrum fees payable by DCMS to the Consolidated Fund is given below.

	31 March 2017 £'000	31 March 2016 £'000
Spectrum Fees Transferred		
Wireless Telegraphy Act Cash Transferred to DCMS	256,142	118,994
WT Act Auction Receipts transferred to DCMS	-	-
Fees received from Government Departments	111,187	146,577
Total spectrum fees transferred by Ofcom for surrender to the Consolidated Fund	367,329	265,571
Grant in Aid in respect of related Costs		
Spectrum Clearance and Awards	(23,140)	(9,558)
Spectrum Management	(47,709)	(47,124)
Total Spectrum Grants received by Ofcom from DCMS	(70,849)	(56,682)

6. Financial Penalties

Penalties received in the year were as follows:

	31 March 2017 £'000	31 March 2016 £'000
Sector		
Broadcasting TV	60	25
Radio	-	-
Networks & Services	7,325	2,018
Online Broadcasting	-	-
	7,385	2,043

During 2016/17, Ofcom issued fines totalling £50.6m (2015/16: £1.4m), and collected fines totalling £7.4m (2015/16: £2.0m). Details of all the penalties can be found on the Ofcom website at:

https://www.ofcom.org.uk/_data/assets/pdf_file/0031/96943/financial-penalties-imposed-for-the-period-01042016-to-31032017.pdf

7. Geographical Numbering Income

In the period of these accounts, £1.4m (2015/16: £1.4m) was received and £0.9m paid to the UK Consolidated Fund at HM Treasury. The balance of £0.5m was transferred in May 2017.

8. Balance at End of the Financial Year

The cash balance of £8.4m (2015/16: £3.8m) at the end of the year relates to the Wireless Telegraphy Act fees £7.9m and £0.5m (2015/16: nil) to geographical numbering income. Both balances were transferred to DCMS and the UK Consolidated Fund respectively in April & May 2017.