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SECTION C

# Financial Statements

## 17. Statement of Comprehensive Net Income

for the year ended 31 March 2020

	Notes	2019/20 £'000	2018/19 £'000
Income	3	124,994	124,283
Spectrum clearance	3	76,651	72,452
Legal settlement funding	3	232,533	-
<b>Total income</b>		<b>434,178</b>	<b>196,735</b>
<b>Operating expenditure</b>			
Staff costs	4	(78,757)	(76,281)
Other operating expenditure	6	(47,890)	(46,035)
Spectrum clearance	4,6	(76,651)	(72,452)
Legal cost in year	6	(3,533)	(232,000)
<b>Total operating expenditure</b>		<b>(206,831)</b>	<b>(426,768)</b>
<b>Operating surplus/(deficit)</b>		<b>227,347</b>	<b>(230,033)</b>
Finance (costs)/income	16,17	(1,058)	1
Pension interest income	20	382	439
<b>Surplus/(Deficit) before tax for the year</b>		<b>226,671</b>	<b>(229,593)</b>
Taxation	7	-	-
<b>Surplus/(Deficit) after tax for the year</b>		<b>226,671</b>	<b>(229,593)</b>
<b>Other comprehensive income/(expenditure)</b>			
Remeasurement on pensions	20	4,534	(196)
<b>Total comprehensive income/(expenditure)</b>		<b>231,205</b>	<b>(229,789)</b>

The accounting policies and notes on pages 115 to 154 form part of these financial statements.

## 18. Statement of Financial Position

as at 31 March 2020

	Notes	As at 31 March 2020 £'000	As at 31 March 2019 £'000
<b>Non-current assets</b>			
Property, plant and equipment	8	11,312	12,490
Right-of-use assets	9	47,650	-
Intangible assets	10	627	966
Trade and other receivables	12	541	484
Retirement benefit assets	20	22,426	17,691
<b>Total non-current assets</b>		<b>82,556</b>	<b>31,631</b>
<b>Current assets</b>			
Trade and other receivables	11	15,920	15,216
Cash and cash equivalents	13	13,827	7,685
<b>Total current assets</b>		<b>29,747</b>	<b>22,901</b>
<b>Total assets</b>		<b>112,303</b>	<b>54,532</b>
<b>Current liabilities</b>			
Trade and other payables	14	28,428	21,584
Lease liabilities	16	4,052	-
Provisions for liabilities and charges	17	3,014	232,031
<b>Total current liabilities</b>		<b>35,494</b>	<b>253,615</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	1,290	1,000
Lease liabilities	16	44,522	-
Provisions for liabilities and charges	17	152	151
Retirement benefit liabilities	20	1,085	1,211
<b>Total non-current liabilities</b>		<b>47,049</b>	<b>2,362</b>
<b>Total liabilities</b>		<b>82,543</b>	<b>255,977</b>
<b>Assets less liabilities</b>		<b>29,760</b>	<b>(201,445)</b>
<b>Equity</b>			
Reserves		29,760	(201,445)
<b>Total equity</b>		<b>29,760</b>	<b>(201,445)</b>

The accounting policies and notes on pages 115 to 154 form part of these financial statements. These financial statements were approved by the Board on 03 July 2020.

**Lord Burns**  
Chair  
3 July 2020

**Dame Melanie Dawes DCB**  
Chief Executive and Accounting Officer  
17 July 2020

## 19. Statement of Changes in Equity

for the year ended 31 March 2020

	Notes	Reserve £'000
<b>Balance as at 1 April 2018</b>		<b>28,344</b>
<b>Changes in equity for 2018/19</b>		
Remeasurement on pensions	20	(196)
Deficit for year		(229,593)
<b>Total comprehensive expenditure for 2018/19</b>		<b>(229,789)</b>
<b>Balance as at 31 March 2019</b>		<b>(201,445)</b>
<b>Changes in equity for 2019/20</b>		
Remeasurement on pensions	20	4,534
Surplus for year		226,671
<b>Total comprehensive income for 2019/20</b>		<b>231,205</b>
<b>Balance as at 31 March 2020</b>		<b>29,760</b>

The accounting policies and notes on pages 115 to 154 form part of these financial statements.

## 20. Statement of Cash Flows

for the year ended 31 March 2020

	Notes	2019/20 £'000	2018/19 £'000
<b>Cash flows from operating activities</b>			
Operating surplus/(deficit)		227,347	(230,033)
<b>Adjustments for non-cash transactions</b>			
Depreciation	8	2,115	2,448
Depreciation of right-of-use assets	9	4,775	-
Amortisation	10	265	636
Loss on disposal of non-current assets	6	97	93
Increase in trade and other receivables	11,12	(761)	(5,223)
Increase/(Decrease) in trade and other payables	14,15	7,134	(12,337)
(Decrease)/Increase in provisions	17	(229,032)	231,970
Decrease in retirement pension	20	55	790
<b>Net cash inflow/(outflow) from operating activities</b>		<b>11,995</b>	<b>(11,656)</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	8	(895)	(5,558)
Purchases of intangible assets	10	(68)	(385)
Proceeds from sale of non-current assets		3	51
<b>Net cash outflow from investing activities</b>		<b>(960)</b>	<b>(5,892)</b>
<b>Cash flows from financing activities</b>			
Payments of lease liabilities	16	(4,893)	-
<b>Net cash outflow from financing activities</b>		<b>(4,893)</b>	<b>-</b>
<b>Increase/(Decrease) in cash and cash equivalents in the year</b>		<b>6,142</b>	<b>(17,548)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>7,685</b>	<b>25,233</b>
Increase/(Decrease) in cash and cash equivalents in the year		6,142	(17,548)
<b>Closing net funds</b>	<b>13</b>	<b>13,827</b>	<b>7,685</b>

The accounting policies and notes on pages 115 to 154 form part of these financial statements.

## 21. Notes to the Accounts

for the year ended 31 March 2020

### 1. Basis of presentation and principal accounting policies

The Office of Communications (Ofcom) is a statutory corporation that provides a broad range of regulatory services, and is domiciled in the United Kingdom. The financial statements of Ofcom for 31 March 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Union.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain non-current assets and financial instruments that are measured at revalued amounts or fair value, if any, on a going concern basis, in accordance with International Financial Reporting Standards (IFRS). The financial statements are prepared on the basis of all IFRS accounting standards and interpretations and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation, except where these are overridden by the Office of Communications Act 2002. These financial statements are prepared under the accounts direction from the Departments for Business, Energy and Industrial Strategy (BEIS) and Digital, Culture, Media and Sport (DCMS).

Amounts in the Financial Statements are stated in pounds sterling, to the nearest thousand, which is the functional currency of Ofcom.

### a) Adoption of new and revised standards

Certain new standards, amendments and interpretations to existing standards, listed below, have been published but do not have any material impact on the financial statements of Ofcom. The standard and statement below relate to the current accounting period.

- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement applicable to annual periods beginning on or after 1 January 2019. For Ofcom, the transition date is at the start of the financial year on 1 April 2019. For year ending 31 March 2020, this has no impact on our figures, as there have not been any circumstances that would lead to a past service cost or settlement flowing through the Statement of Comprehensive Net Income.
- IFRS Practice Statement 2 Making Materiality Judgements to be applied immediately, a non-mandatory guidance to help make materiality judgements when preparing accounts.

Certain new standard, amendment and interpretation to existing standards, listed below, has been published with material impact on the financial statements of Ofcom. The standard below relates to the current reporting period.

- IFRS 16 Leases is applicable to annual periods beginning on or after 1 January 2019. For Ofcom, the transition date is at the start of the financial year on 1 April 2019.

This standard, which replaced IAS 17, along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal

Form of a Lease<sup>3</sup>) requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset is low value. As at 31 March 2020, Ofcom holds a number of operating leases which previously, under IAS 17, were expensed on a straight-line basis over the lease term.

Ofcom has applied the standard from the transitional date using the modified retrospective approach, adjusting opening retained earnings and not re-stating comparatives. This involves calculating the right-of-use asset and lease liability based on the present value of remaining lease payments on all applicable lease contracts as at the transition date, discounted in accordance with HM Treasury direction. Right-of-use assets and lease liabilities increased by £51,563k on 1 April 2019, adjusted for irrecoverable VAT balance. There is no impact on retained earnings on 1 April 2019.

The discount rate, the renewal of and changes to the lease portfolio were all subjected to change in future periods prior to the transition date, thus the actual transitional adjustment has resulted in an immaterial change to the quantitative disclosure estimated in prior year.

In applying IFRS 16 for the first time, Ofcom has used the following practical expedients permitted by the standard:

- Ofcom has collated the operating lease information in order to assess the updated cumulative adjustment on transition and elected not to apply IFRS 16 to contracts that are not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.
- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting of operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases.
- The accounting of operating leases for which the underlying asset is of low value.
- The exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application. At this date, Ofcom has also elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following is a reconciliation of total operating lease commitments at 31 March 2019 (as disclosed in the financial statements to 31 March 2019) to the lease liabilities recognised at 1 April 2019:

	<b>£'000</b>
Operating lease commitments disclosed at 31 March 2019	68,320
Discounted using HM Treasury rate of 1.99%	(6,898)
(Less): short term leases recognised on a straight-line basis as expenditure	(49)
(Less): low-value leases recognised on a straight-line basis as expenditure	(25)
(Less): contracts reassessed as service agreements	-
(Add): adjustments as a result of a different treatment of extension and termination options	(9,785)
Add/(Less): adjustments relating to changes in the index or rate affecting variable payments	-
<b>Lease liabilities recognised at 1 April 2019</b>	<b>51,563</b>

No other new standard, amendment and interpretation to existing standard has been published with an impact on the financial statements of Ofcom which relate to future accounting periods.

## **b) Income recognition**

Income comprises the fair value of the consideration received or receivable in the ordinary course of Ofcom's activities. Income is shown net of value-added tax, returns, rebates and discounts. Ofcom recognises income when the amount can be reliably measured, and it is probable that future economic benefits will flow to the entity.

IFRS 15 Revenue from Contracts with Customers: has a five stage model for the recognition of income from contracts with customers. The core principle was to recognise income so that it depicts the transfer of promised goods or services to customers in an amount that reflected the consideration to which the entity expects to be entitled to in exchange for those goods or services. Ofcom considered the five-step process and determined no change to the income recognition approach:

- In each financial year, Ofcom is required to balance its expenditure with its income. Ofcom

is required by the statute to raise income from each of the sectors it regulates such that it covers the costs to be incurred by Ofcom in regulating that sector together with a proper apportionment of Ofcom's 'common costs' to each of those sectors. Therefore, Legislation provides the enforceability on both parties to enable Ofcom to recover its costs from third parties.

- The performance obligations relate to the underlying work to be undertaken by Ofcom as regulator of the Communications sector, and as set out in the published Annual Plan.
- The charges are calculated on the basis of costs recovery as set out in the Ofcom budget and adjusted for any under or over recoveries in the previous year. All charges are published in the tariff tables for each financial year.
- Costs are allocated to third parties in line with the Ofcom Statement of Charging Principles. This ensures charges reflect costs allocated to the appropriate sector and in line with relevant turnover.



- Income is recognised in the year the performance obligation (cost) is incurred. Any under or over recovery of income is accrued or deferred and future charges are adjusted accordingly.
- Income is also recognised for those costs where fees and charges cannot be raised to stakeholders, primarily for the cost of spectrum management through the retention of WTA licence fees in accordance with S401 of the Communications Act 2003 and the Statement of Funding Principles.

### Grant-in-aid DCMS

Grant-in-aid is provided from DCMS for the funding of 700MHz clearance programme. This programme oversees the clearance (including mitigation of potential interference) of the UHF 700MHz band. Clearance is undertaken by third parties who are funded by way of capital grants that have been considered and approved in principle by the Spectrum Clearance and Awards Programme Management Board (SCAP-MB), with final approval by HM Treasury.

The grant recipients for the programme request funding from Ofcom once the grant conditions have been satisfied. For awarded grants, Ofcom will only pay monies for actual costs incurred, and will recognise the costs on agreement to pay the recipient for the requested funds.

### Wireless Telegraphy Act (WTA) Receipts Retention

Fees are payable to Ofcom in relation to our spectrum management function. Following the enactment of the Digital Economy Act 2017, Ofcom may retain such sums to fund its general spectrum management functions, as well as to meet the costs of undertaking its other functions for which it cannot otherwise levy fees and charges. The monthly retention amount is determined by the planned expenditure for these functions. Income recognition is on an accrual basis with any over or under recovery adjusted for in the following month's retention amount.

## Stakeholder income

### Networks and services, postal services administrative fees

These fees are charged to stakeholders in the networks and services and postal services who operate under a non-licensed regime but fall within Ofcom's regulatory powers. These charges are a combination of both planned expenditure for our regulatory work as set out in the Annual Plan and prior year adjustments. This income is accounted for on an accrual basis. Following finalisation of costs at year end, income in excess of the cash expenditure is classified as deferred income and presented on the Statement of Financial Position as a payable. Conversely, cash expenditure in excess of income received is classified as accrued income and presented on the Statement of Financial Position as a receivable at the end of the reporting date. Any over or under recovery is reflected in the following financial year's costs.

### Blockchain

In October 2018, we were awarded a grant from Innovate UK, part of UK Research and Innovation, a non-departmental public body funded by the UK government. The award was made under the Regulator's Pioneer Fund, set up for UK regulators to help drive forward innovation in the public sector. Our project was based on the use of blockchain technology to improve UK telephone number management and manage digital identity. The award amount is conditional on match funding (Ofcom 25%, grant 75%) and was extended in August 2019. Income recognition is on an accrual basis with any over or under recovery adjusted for in the following financial year.

### Broadcasting licence fees

Income from broadcasting licence fees represents the amount invoiced to holders of broadcasting licences for our planned regulatory works including any prior year adjustments. This income is accounted for on an accrual basis.

Income in excess of the cash expenditure in the broadcasting's sector is classified as deferred income and presented on the Statement of Financial Position as a payable. Cash expenditure in excess of income received is classified as accrued income and presented on the Statement of Financial Position as a receivable at the end of the reporting date. Any over or under recovery is reflected in the following financial year's costs.

### Application fees

For practical reasons, we charge fixed fees for discrete regulatory activities within the control of individual stakeholders (for example, a broadcasting licence application) or where relevant turnover is not an appropriate basis for charging (for example, community radio). These fees are non-refundable and accordingly, recorded as revenue on receipt of the stakeholder application. However, any under or over recovery is offset against the total sector's costs in the following year. For example, if the total expenditure for radio applications exceed the revenue from the applications, the under recovery will be included in the total radio regulatory costs to be recovered from radio licence fee payers.

### Networks and information systems

Income from Network and Information systems (NIS) stakeholders represents the amounts due from designated operators of essential services for our regulatory work. This income is accounted for on an accrual basis. As per the NIS regulations, this income is recovered in arrears; thus the cash expenditure is classified as accrued income and presented on the Statement of Financial Position as a receivable at the end of the reporting date.

### Other income

Non-statutory income is accounted for on an accruals basis and is matched with the expenditure towards which it contributes.

### c) MG Alba

In accordance with Section 210 of the Communications Act 2003 and Section 183 of the Broadcasting Act 1990, the sums paid by the Scottish Ministers to Ofcom are subsequently paid by Ofcom to the Gaelic Broadcasting Fund managed by MG Alba. As a result, this is not reflected in Ofcom's financial statements.

### d) Receipts collected by Ofcom within the scope of Section 400 of the Communications Act 2003

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

- WTA licence fees
- Government Department spectrum fees
- Financial Penalties
- Additional Payments from television and radio licensees; and
- Geographic Numbering

The income collected (excluding those retained under the Digital Economy Act 2017) was 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 Digital, Culture, Media, and Sport (DCMS) as Ofcom's sponsoring body.

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

Thus, no receipts, payments or related Statement of Financial Position items are made in Ofcom's Financial Statements in respect of Section 400 related transactions, unless payments and fees have been collected and deposited into Ofcom's main bank account at the end of the reporting date.

### e) Property, plant and equipment

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

The minimum capitalisation threshold is £2,500 and property, plant and equipment is recorded at cost or deemed cost, less accumulated depreciation and any impairment losses. Capitalisation thresholds are applied to individual items unless it is more appropriate to apply the criteria to an aggregated value. For example, fixed computer hardware such as servers, firewalls and network switches used in offices are capitalised. Whereas, low value, short-life moveable IT equipment is expensed, as Ofcom has no control over the physical environment or manner in which usage takes place.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Ofcom and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful lives as follows:

Fixtures & Fittings – Leasehold Improvements	Period of the lease
Fixtures & Fittings – Furniture	7 years
Office and Field Equipment	4 to 7 years
Computer Hardware	3 to 5 years
Motor Vehicles	5 years

Depreciation is charged to the Statement of Comprehensive Net Income, from the month following that in which an asset is brought into service. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Assets under construction represent costs incurred in developing tangible assets. Upon completion, these assets will be transferred to the relevant asset class and depreciated according to the accounting policy.

Losses and gains on disposals are recognised within 'Loss/(Profit) on disposal of non-current assets' in the 'Other operating expenditure' note per the Statement of Comprehensive Net Income.

## f) Right-of-use assets and lease liabilities

As described in Note 1, Ofcom has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

For any new contracts entered into on or after 1 April 2019, Ofcom considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition Ofcom assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to Ofcom.
- Ofcom has the right to obtain substantially all the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- Ofcom has the right to direct the use of the identified asset throughout the period of use. Ofcom assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

At lease commencement date, Ofcom recognises right-of-use asset and lease liability excluding VAT on the balance sheet. Right-of-use assets are measured at cost, which is made up of the initial measurement of the lease liability, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received) up to the end of or extension of lease, whichever is later, or up to termination of lease if any.

Ofcom depreciates the right-of-use assets on a straight-line basis at rates estimated to write off their book values from the month in which an asset is brought into service, to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Ofcom also assesses the right-of-use asset for impairment when such indicators exist.

The minimum capitalisation threshold is £2,500 and right-of-use assets is recorded at total costs of the leased contract, less accumulated depreciation and any impairment losses. Capitalisation thresholds are applied to individual items unless it is more appropriate to apply the criteria to an aggregated value.

Subsequent to initial measurement, the carrying amount of the right-of-use asset is adjusted by the same amount as the adjustment to the carrying value of the lease liability. There is no immediate gain or loss, but the revised cash flows will impact the Statement of Comprehensive Net Income over the remaining term of the lease. Exceptions to this principle are when a reduction in the carrying value of the lease liability is greater than the carrying value of the related right-of-use asset at the point of remeasurement, in which case the asset is reduced to nil and the excess is recognised in Statement of Comprehensive Net Income, and in many cases where a lease modification decreases the scope of an existing lease. Revaluation of right-of-use assets, if any, will be recognised in the revaluation reserve.

Ofcom measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or in accordance with HM Treasury rate of 1.27% for calendar year 2020 (1.99% for calendar year 2019).

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), and if any, the variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or Statement of Comprehensive Net Income if the right-of-use asset is already reduced to zero.

Ofcom has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expenditure in Statement of Comprehensive Net Income on a straight-line basis over the lease term.

### **g) Intangible assets**

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses as per IAS 38 Intangible Assets.

Expenditure capitalised includes the costs of software applications, related licences fees, and the information technology which relates to the development of our core systems. The minimum capitalisation threshold is £2,500. Capitalisation thresholds are applied to individual items unless it is more appropriate to apply the criteria to an aggregated value.

Internally generated intangible non-current assets, such as computer software, are recognised only if an asset is created that can be identified. Where no internally generated intangible asset can be recognised, development costs is recorded as an expenditure in the period in which it is incurred.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Ofcom and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Amortisation on capitalised intangible assets is charged to the Statement of Comprehensive Net Income on a straight-line basis, from the month following that in which an asset is brought into service, over the estimated useful life of the asset of 3 to 5 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Systems under development comprise of costs incurred in developing software, which will replace some of the current applications. Upon completion, these assets will be transferred to the relevant asset class and amortised according to the accounting policy.

Losses and gains on disposals are recognised within 'Loss/(Profit) on disposal of non-current assets' in the 'Other operating expenditure' note per the Statement of Comprehensive Net Income.

### **h) Impairment of Property, Plant and Equipment and Intangible Assets**

At each reporting date, the carrying value of non-current assets is reviewed to determine if there is some indication that the carrying value of the assets may have been impaired as per IAS 36 Impairment of Assets.

An asset's carrying amount is written down immediately, as an impairment loss, to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Material impairments are disclosed separately in the notes to the Statement of Comprehensive Net Income and Statement of Financial Position. Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## i) Financial Instruments

### Trade and other receivables

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

Trade and other receivables are non-interest bearing and recognised initially at fair value less any write off for impairment. Gains and losses on subsequent measurement are recognised as fair value entirely in Statement of Comprehensive Net Income.

Prepayments are payments which have been made, but the benefits of which have not been consumed.

Accrued income – see Note 1(b) income recognition.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and amount due to the Consolidated Fund. Interest income receivable on cash and cash equivalents is recognised as it is earned.

### Trade and other payables

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

Trade and other payables are non-interest bearing and recognised initially at fair value.

Other payables represent money owing to third parties at the reporting date.

Deferred income – see Note 1(b) income recognition.

### Financial Risks and Impairment of Financial Instruments

IAS 32 Financial Instruments: Presentation requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Ofcom has no significant exposure to liquidity, interest rate or currency risks. Because of the nature of activities and the way in which Ofcom is financed, it is not exposed to the degree of financial risks faced by business entities.

Moreover, financial instruments play a limited role in creating or changing risk as compared to listed companies to which IAS 32 mainly applies. Ofcom has very limited powers to borrow or invest surplus funds. Financial assets and liabilities that are generated by day-to-day operational activities do not change the risks facing Ofcom in undertaking its activities.

The adoption of IFRS 9 Financial Instruments has no material impact to Ofcom's results. Ofcom's trade receivables or contract assets have no significant financing component nor exposure to credit risks, with any under recovery of stakeholder fees in a given year recover through the following years tariffs. Ofcom has assessed the loss allowance at initial recognition at an amount equal to lifetime expected credit loss, and the outcome was immaterial. Therefore, to ensure this remains the same throughout the life of the receivable, Ofcom continues to appraise the robustness of its monthly credit control and impairment of financial assets, if any, at the end of each financial year.

## j) Employee benefits

### Pensions

Ofcom has a range of pension plans which include a defined contribution plan, two defined benefit plans and an unfunded plan.

#### Defined contribution scheme

A defined contribution plan is a post-employment benefit under which Ofcom pays contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations under Ofcom's defined contribution scheme are recognised within staff costs as an expenditure in the Statement of Comprehensive Net Income as incurred. New staff may join the stakeholder pension scheme, which is a defined contribution scheme.

#### Defined benefit plans

A defined benefit plan is a post-employment benefit where the benefits its members are entitled to are pre-determined by a formula. Ofcom's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned during their membership of the plan. That benefit is discounted to determine its present value and the fair value of plan assets is deducted. The discount rate is the yield at the reporting date on high quality bonds that have maturity dates approximating the terms of Ofcom's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

When the calculation results in a benefit to Ofcom, the recognised asset is limited to the present value of any future refunds. Actuarial gains and losses are recognised in other comprehensive (expenditure)/income within the Statement of Comprehensive Net Income

in full in the period in which they occur. Interest income and costs, and administration costs of the defined benefit plans are recognised in comprehensive (expenditure)/income within the Statement of Comprehensive Net Income in the current period.

Ofcom participates in two defined benefit pension schemes which relate to staff that transferred to Ofcom from legacy regulators. These schemes are closed to new members and following consultation with Plan members have been closed for future accrual as from 1 June 2011.

The Ofcom Defined Benefit Pension Plan provides benefits that are broadly equivalent to the Principal Civil Service Pension Scheme (PCSPS). The second scheme is the Ofcom (Former ITC) Staff Pension Plan. This is a multi-employer scheme with Ofcom, ASA, and S4C as participating employers. The assets of both schemes are held in separately administered trusts.

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

#### Unfunded schemes

Ofcom also has liabilities in respect of pension payments to two former Chairmen of the Independent Television Commission, two former Chairmen of the Radio Authority and two former Directors General of The Office of Telecommunications. These unfunded benefits are accounted for under IAS 19 Employee Benefits via a provision in Ofcom's Statement of Financial Position equal to the actuarial value of these liabilities.

### Colleague leave liability

Under IAS 19 Employee Benefits, all costs must be recorded as an expenditure as soon as the obligation to pay employees arises. This includes the cost of any untaken leave as at the year end.

Colleagues who have completed five years of continuous service are entitled to a paid sabbatical of five weeks and thereafter accrue one week for each additional year of service subject to a maximum of ten weeks. An accrual, based on management's best estimates using current salary data is included as part of accruals. As from 1st January 2008, this benefit was withdrawn for new employees.

### k) Provisions

Provisions for early retirement and legal provisions are recognised when:

The severance package for some colleagues who transferred to Ofcom on their old Civil Service terms and conditions of employment are provided from the date of early retirement until retiring age. The colleague receives an annual compensation payment equal to the preserved pension which is paid by monthly instalments in arrears like a pension. It begins to accrue on the day immediately following the date of retirement and continues until the preserved pension comes into payment, when it stops.

Ofcom has a present legal or constructive obligation as a result of past events and for estimated third party legal costs and damages in respect of challenges to regulatory decisions of Ofcom where it is judged probable that these will be payable; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

### l) Foreign exchange

Transactions designated in foreign currencies are translated into pounds sterling at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities designated in foreign currencies are translated at the rates prevailing at the reporting date with the resulting profit or loss recognised in the Statement of Comprehensive Net Income for the year.

### m) Current tax

HM Revenue and Customs has ruled that Ofcom's regulatory functions do not constitute a trading business. Consequently, Ofcom is unable to recover VAT on expenditure which it incurs as part of its regulatory activities.

Corporation Tax is assessable on interest received, and in respect of rental income.



## **n) Segmental analysis**

A segment is a distinguishable component of the organisation that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), and is subject to risks and rewards that are different from those of other segments. No analysis of Ofcom's turnover from operations by geographical segment or business segment has been presented as all Ofcom's activities are carried out in the UK and within the regulatory sector. However, in order to meet with the requirements of the Communications Act 2003 to provide information on costs and fees, Note 2 to these financial statements presents the Statement of Comprehensive Net Income for the year under review by sector.

## **o) Areas of judgement and key sources of estimation uncertainty**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of income and expenditure during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the accounting policies or the notes to the financial statements, and the key areas are summarised below.

The areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follow:

- Legal provisions – accounting policy (k)
- Income recognition and assessment of unbilled income – accounting policy (b)

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

- Estimation of liabilities for pensions and other post-retirement benefits – accounting policy (j)
- Judgement about whether a contract contains a lease (f)
- Calculation of expected credit loss allowance in respect of receivables (i)

## 2. Sectoral analysis

The analysis below refers to income by sector for the year ended 31 March 2020, together with attributable costs. This is prepared in accordance with the Communications Act 2003 and Postal Services Act 2011 and not in terms of IFRS 8 Operating Segments, as per the accounting policy 1 (n).

	Spectrum management	Spectrum clearance	Satellite filings	Third party litigation	Network information & services	Networks & services	Broad-casting	Postal regulation	Other regulatory activities	2019/20 Total	2018/19 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Income</b>											
Licence, regulation & administration fees	-	-	-	-	-	49,327	22,633	4,284	-	76,244	72,772
Application fees	-	-	-	-	-	370	214	-	-	584	437
Grant-in-aid (GIA)	-	79,241	-	230,826	-	-	-	-	-	310,067	72,245
WTA receipts retention	52,481	-	-	1,146	-	-	-	-	1,298	54,925	54,156
Accrued/(Deferred) income	437	(2,590)	930	561	93	(9,210)	1,303	911	(1,079)	(8,644)	(3,307)
<b>Operating income</b>	<b>52,918</b>	<b>76,651</b>	<b>930</b>	<b>232,533</b>	<b>93</b>	<b>40,487</b>	<b>24,150</b>	<b>5,195</b>	<b>219</b>	<b>433,176</b>	<b>196,303</b>
Other income	364	-	6	-	-	279	166	36	2	853	296
Interest receivable	63	-	1	-	-	48	31	6	-	149	136
<b>Total income</b>	<b>53,345</b>	<b>76,651</b>	<b>937</b>	<b>232,533</b>	<b>93</b>	<b>40,814</b>	<b>24,347</b>	<b>5,237</b>	<b>221</b>	<b>434,178</b>	<b>196,735</b>
Accrued rental income	1	-	-	-	-	1	-	-	-	2	12
<b>Cash income</b>	<b>53,346</b>	<b>76,651</b>	<b>937</b>	<b>232,533</b>	<b>93</b>	<b>40,815</b>	<b>24,347</b>	<b>5,237</b>	<b>221</b>	<b>434,180</b>	<b>196,747</b>
Adjustment to operating expenditure	(428)	-	(7)	-	-	(328)	(197)	(42)	(2)	(1,004)	(444)
Other costs	(52,918)	(76,651)	(930)	(561)	(93)	(40,487)	(24,150)	(5,195)	(219)	(201,204)	(196,303)
<b>Cash operating expenditure</b>	<b>(53,346)</b>	<b>(76,651)</b>	<b>(937)</b>	<b>(561)</b>	<b>(93)</b>	<b>(40,815)</b>	<b>(24,347)</b>	<b>(5,237)</b>	<b>(221)</b>	<b>(202,208)</b>	<b>(196,747)</b>
Legal settlement	-	-	-	(231,972)	-	-	-	-	-	(231,972)	-
<b>Total</b>	<b>(53,346)</b>	<b>(76,651)</b>	<b>(937)</b>	<b>(232,533)</b>	<b>(93)</b>	<b>(40,815)</b>	<b>(24,347)</b>	<b>(5,237)</b>	<b>(221)</b>	<b>(434,180)</b>	<b>(196,747)</b>
<b>Surplus on cash costs basis</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Comparative costs by sector

<b>Year ending 31 March 2020</b>	<b>(53,346)</b>	<b>(76,651)</b>	<b>(937)</b>	<b>(561)</b>	<b>(93)</b>	<b>(40,815)</b>	<b>(24,347)</b>	<b>(5,237)</b>	<b>(221)</b>	<b>(202,208)</b>
Year ending 31 March 2019	(54,275)	(72,452)	-	-	-	(37,850)	(25,175)	(4,506)	(2,489)	(196,747)

Other regulatory activities comprise:

- expenditure in respect of duties for competition enquiries, public interest test activity, nuisance calls and consumer protection; and WTA receipts used to fund these cost categories;
- expenditure in respect of duties relating to improving UK telephone number management, funded by grant from UK Research and Innovation;
- adjudicator income;
- commercial activities including spectrum interference work; and
- rental income from sub-letting surplus properties' space.

In accordance with Ofcom's accounting policies, as set out in note 1 (b) to these accounts, grant-in-aid and WTA receipts retention are allocated and matched to costs in the year to which they relate.

The table on page 127 is prepared on an adjusted cash basis, which includes capital expenditure and actual contributions to pension schemes, but excludes depreciation and amortisation.

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

Broadcasting includes the charge to the BBC in relation to BBC regulatory responsibilities.

## Reconciliation from operating expenditure to final operating costs out-turn

	Notes	2019/20 £'000	2018/19 £'000
<b>Operating expenditure - Statement of Comprehensive Net Income</b>		<b>206,831</b>	<b>426,768</b>
Adjustments in respect of pension asset and liability		(131)	(790)
Capital expenditure less depreciation and amortisation	8,10	(1,417)	2,859
Right-of-use assets depreciation	9	(4,775)	-
Lease payments	16	4,893	-
Rent free adjustment		79	25
Other adjustments		(3,272)	(232,115)
<b>Cash operating expenditure</b>	-	<b>202,208</b>	<b>196,747</b>
Spectrum clearance	4,6	(76,651)	(72,452)
Third party litigation - WTA		(561)	-
Non-operating income		(1,004)	(444)
<b>Final operating costs out-turn</b>		<b>123,992</b>	<b>123,851</b>

The increase in non-operating income is driven by a full year's activity on Blockchain in comparison with 18/19, whereas the other adjustments reflect the movement in year of non cash related matters, such as holiday pay and provisions.

### 3. Income

	Ofcom	Spectrum clearance	Third party litigation	Total 2019/20	Ofcom	Spectrum clearance	Third party litigation	Total 2018/19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Grant-in-aid DCMS</b>								
Spectrum clearance	-	76,651	-	76,651	-	72,452	-	72,452
Legal settlement funding	-	-	230,826	230,826	-	-	-	-
<b>Total government grant-in-aid</b>	<b>-</b>	<b>76,651</b>	<b>230,826</b>	<b>307,477</b>	<b>-</b>	<b>72,452</b>	<b>-</b>	<b>72,452</b>
<b>WTA Receipts Retention</b>								
Spectrum management	52,918	-	-	52,918	54,082	-	-	54,082
Competition law enforcement	-	-	-	-	1,774	-	-	1,774
Nuisance calls	-	-	-	-	212	-	-	212
Consumer protection	95	-	-	95	28	-	-	28
Public interest test	124	-	-	124	102	-	-	102
Satellite filings	930	-	-	930	-	-	-	-
Legal settlement funding	-	-	1,707	1,707	-	-	-	-
<b>Total WTA receipts retention</b>	<b>54,067</b>	<b>-</b>	<b>1,707</b>	<b>55,774</b>	<b>56,198</b>	<b>-</b>	<b>-</b>	<b>56,198</b>
<b>Stakeholder income</b>								
Networks & services administrative and application fees	40,487	-	-	40,487	37,715	-	-	37,715
Blockchain	651	-	-	651	211	-	-	211
Broadcasting Act licence and application fees	24,150	-	-	24,150	25,084	-	-	25,084
Regulation of postal services	5,195	-	-	5,195	4,490	-	-	4,490
Networks and information systems	93	-	-	93	-	-	-	-
Other income	351	-	-	351	585	-	-	585
<b>Total stakeholder income</b>	<b>70,927</b>	<b>-</b>	<b>-</b>	<b>70,927</b>	<b>68,085</b>	<b>-</b>	<b>-</b>	<b>68,085</b>
<b>Total income</b>	<b>124,994</b>	<b>76,651</b>	<b>232,533</b>	<b>434,178</b>	<b>124,283</b>	<b>72,452</b>	<b>-</b>	<b>196,735</b>

Broadcasting Act licence and application fees include the charge to the BBC in relation to BBC regulatory responsibilities. Spectrum Clearance income has been presented separately from core Ofcom income in order to provide a more meaningful comparison between the years.

Total income increase is due to GIA funds received for Annual Licence Fee related legal settlement.

## 4. Staff costs

	Ofcom £'000	Spectrum clearance £'000	Total 2019/20 £'000	Ofcom £'000	Spectrum clearance £'000	Total 2018/19 £'000
<b>Staff costs, including fees paid to board members, were:</b>						
Salaries & benefits	64,163	397	64,560	61,047	421	61,468
National Insurance costs	7,556	42	7,598	7,280	45	7,325
Pension costs	6,722	34	6,756	7,040	35	7,075
Restructuring costs	316	-	316	914	-	914
<b>Total staff costs</b>	<b>78,757</b>	<b>473</b>	<b>79,230</b>	<b>76,281</b>	<b>501</b>	<b>76,782</b>

The restructuring costs in 2019/20 relate to restructuring activities completed in the year and includes an accrual for those costs unpaid at year end relating to seven (2018/19: 13) employees.

More detailed information in respect of the remuneration and pension entitlements of the directors and senior executives is shown in the remuneration report on pages 95 to 101.

There is no pension service cost for the equalisation of Guaranteed Minimum Pension (GMPs), and Deed of Amendment executed in respect of the Ofcom Defined Benefit Plan for this financial year (2018/19: £675k). More information of these in Note 20.

During the year, thirty-one (2018/19: 22) employees were seconded to other organisations and thus this credit is included within the staff costs line in the table above.

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

## 5. Employee numbers

	2019/20	2018/19
<b>The average number of employees (full time equivalents)</b>	<b>937</b>	<b>902</b>

As at 31 March 2020, Ofcom had 958 employees (full time equivalents) (2018/19: 901).

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

## 6. Other operating expenditure

	Ofcom	Spectrum clearance	Third party litigation	Total 2019/20	Ofcom	Spectrum clearance	Third party litigation	Total 2018/19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Auditors remuneration – statutory audit fees	83	-	-	83	76	-	-	76
Auditors remuneration – Section 400	14	-	-	14	13	-	-	13
Professional fees	4,024	2,489	-	6,513	4,064	1,241	-	5,305
Outsourced services	8,108	-	-	8,108	7,684	-	-	7,684
Audience and consumer research	5,513	-	-	5,513	5,142	-	-	5,142
Technological research and spectrum efficiency projects	172	-	-	172	328	-	-	328
Spectrum clearance scheme	-	73,679	-	73,679	-	70,691	-	70,691
Temporary staff and recruitment	3,076	-	-	3,076	2,321	6	-	2,327
Travel and subsistence	1,465	7	-	1,472	1,311	9	-	1,320
Premises costs	4,320	-	-	4,320	9,859	-	-	9,859
Administration and office expenses	7,183	1	-	7,184	7,044	4	-	7,048
Profit on disposal of non capital	-	-	-	-	(50)	-	-	(50)
Information and technology costs	6,484	2	-	6,486	5,035	-	-	5,035
Vehicles	171	-	-	171	271	-	-	271
Bad and doubtful debt	25	-	-	25	(240)	-	-	(240)
Amortisation	265	-	-	265	636	-	-	636
Depreciation	2,115	-	-	2,115	2,448	-	-	2,448
Depreciation ROU lease assets	4,775	-	-	4,775	-	-	-	-
Loss on disposal of non-current assets	97	-	-	97	93	-	-	93
<b>Total other operating expenditure</b>	<b>47,890</b>	<b>76,178</b>	<b>-</b>	<b>124,068</b>	<b>46,035</b>	<b>71,951</b>	<b>-</b>	<b>117,986</b>

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

## Legal cost in year

	Ofcom	Spectrum clearance	Third party litigation	Total 2019/20	Ofcom	Spectrum clearance	Third party litigation	Total 2018/19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Legal cost in year	-	-	3,533	3,533	-	-	232,000	232,000

## 7. Taxation

	2019/20 £'000	2018/19 £'000
<b>Reconciliation of tax charge</b>		
Surplus/(Deficit) before tax	226,671	(229,593)
Tax on profit at the UK standard rate of Corporation Tax of 20% (2018/19: 20%)	45,334	(45,919)
<b>Tax effect of:</b>		
Income not subject to tax	(86,802)	(39,298)
Expenses not subject to tax	41,501	85,266
Decrease to brought forward tax losses	(33)	(49)
<b>Tax charge</b>	-	-

At the reporting date, Ofcom had unutilised tax losses available for offset against future taxable income of £11,379k (2018/19: £11,542k). No deferred tax asset is recognised in respect of these losses as it is not probable that sufficient taxable income will arise against which the losses can be utilised.

## 8. Property, plant and equipment

	Leasehold improvements	Fixtures & fittings	Office & field equipment	Computer hardware	Motor vehicles	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>							
<b>At 1 April 2018</b>	<b>15,355</b>	<b>1,211</b>	<b>13,113</b>	<b>4,350</b>	<b>751</b>	<b>2,707</b>	<b>37,487</b>
Additions during year	3,529	656	411	128	3	831	5,558
Disposals	(11,949)	(667)	(616)	(2,347)	(109)	-	(15,688)
Transfers	2,130	398	1	3	91	(2,623)	-
<b>At 31 March 2019</b>	<b>9,065</b>	<b>1,598</b>	<b>12,909</b>	<b>2,134</b>	<b>736</b>	<b>915</b>	<b>27,357</b>
Additions during year	270	94	76	123	-	332	895
Disposals	(1,174)	(33)	(701)	(698)	-	-	(2,606)
Transfers	-	163	507	300	-	(912)	58
<b>Cost at 31 March 2020</b>	<b>8,161</b>	<b>1,822</b>	<b>12,791</b>	<b>1,859</b>	<b>736</b>	<b>335</b>	<b>25,704</b>
<b>Depreciation</b>							
<b>At 1 April 2018</b>	<b>12,957</b>	<b>684</b>	<b>10,285</b>	<b>3,690</b>	<b>347</b>	<b>-</b>	<b>27,963</b>
Charge for the year	928	316	735	344	125	-	2,448
Disposals	(11,839)	(660)	(602)	(2,342)	(101)	-	(15,544)
<b>At 31 March 2019</b>	<b>2,046</b>	<b>340</b>	<b>10,418</b>	<b>1,692</b>	<b>371</b>	<b>-</b>	<b>14,867</b>
Charge for the year	675	230	671	425	114	-	2,115
Disposals	(1,171)	(29)	(694)	(696)	-	-	(2,590)
<b>Accumulated depreciation at 31 March 2020</b>	<b>1,550</b>	<b>541</b>	<b>10,395</b>	<b>1,421</b>	<b>485</b>	<b>-</b>	<b>14,392</b>
<b>NBV 31 March 2020</b>	<b>6,611</b>	<b>1,281</b>	<b>2,396</b>	<b>438</b>	<b>251</b>	<b>335</b>	<b>11,312</b>
NBV 31 March 2019	7,019	1,258	2,491	442	365	915	12,490

Equipment purchased for the Spectrum Clearance and Awards program has been included in Ofcom's asset registers under Field Equipment.



## 9. Right-of-use assets

Ofcom leases of assets include buildings, vehicles and office equipment. Information about leases for which Ofcom is a lessee is presented below.

	Buildings £'000	Vehicles £'000	Others £'000	Total £'000
<b>Cost</b>				
<b>At 1 April 2019</b>	<b>51,145</b>	<b>292</b>	<b>126</b>	<b>51,563</b>
Additions during year	750	-	112	862
<b>Cost at 31 March 2020</b>	<b>51,895</b>	<b>292</b>	<b>238</b>	<b>52,425</b>
<b>Depreciation</b>				
<b>At 1 April 2019</b>	-	-	-	-
Charge for the year	4,605	118	52	4,775
<b>Accumulated depreciation at 31 March 2020</b>	<b>4,605</b>	<b>118</b>	<b>52</b>	<b>4,775</b>
<b>NBV 31 March 2020</b>	<b>47,290</b>	<b>174</b>	<b>186</b>	<b>47,650</b>
NBV 31 March 2019	-	-	-	-

## 10. Intangible assets

	Software licences £'000	Information technology £'000	Systems under development £'000	Total £'000
<b>Cost</b>				
<b>At 1 April 2018</b>	<b>6,282</b>	<b>20,079</b>	<b>455</b>	<b>26,816</b>
Additions during year	380	5	-	385
Disposals	(1,274)	(2,112)	-	(3,386)
Transfers	63	-	(63)	-
<b>At 31 March 2019</b>	<b>5,451</b>	<b>17,972</b>	<b>392</b>	<b>23,815</b>
Additions during year	-	-	68	68
Impairment	-	-	(84)	(84)
Transfers	-	1	(59)	(58)
<b>Cost at 31 March 2020</b>	<b>5,451</b>	<b>17,973</b>	<b>317</b>	<b>23,741</b>
<b>Amortisation</b>				
<b>At 1 April 2018</b>	<b>5,977</b>	<b>19,622</b>	<b>-</b>	<b>25,599</b>
Charge for the year	343	293	-	636
Disposals	(1,274)	(2,112)	-	(3,386)
<b>At 31 March 2019</b>	<b>5,046</b>	<b>17,803</b>	<b>-</b>	<b>22,849</b>
Charge for the year	147	118	-	265
<b>Accumulated amortisation at 31 March 2020</b>	<b>5,193</b>	<b>17,921</b>	<b>-</b>	<b>23,114</b>
<b>NBV 31 March 2020</b>	<b>258</b>	<b>52</b>	<b>317</b>	<b>627</b>
NBV 31 March 2019	405	169	392	966

## 11. Trade and other receivables: current assets

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Trade receivables	1,783	2,122
Other receivables	2,646	590
Prepayments	6,062	6,317
Staff loans and advances	205	249
Accrued income	2,695	3,463
Accrued income (Grant-in-aid)	561	520
Accrued income (WTA Receipts)	1,968	1,955
<b>Total trade and other receivables: current assets</b>	<b>15,920</b>	<b>15,216</b>

Staff loans relate to 112 (2018/19: 120) season ticket loans to colleagues repayable over 12 months.

## 12. Trade and other receivables: non-current assets

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Accrued income	541	484
<b>Total trade and other receivables: non-current assets</b>	<b>541</b>	<b>484</b>

### 13. Cash and cash equivalents

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Commercial banks and cash in hand	13,827	7,685
<b>Total cash and cash equivalents</b>	<b>13,827</b>	<b>7,685</b>

All activities and cash balances relating to Licence Fees and Penalties are separated from the Ofcom accounts and are disclosed in the Section 400 accounts. The movement in cash balances is primarily due to grants payable in relation to clearance of 700MHz spectrum, which was subsequently paid in 2020/21.

### 14. Trade and other payables: current liabilities

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Trade payables	4,845	1,171
Other payables	582	986
Value added tax payable	268	106
Accruals	9,765	10,416
Lease incentive accrual	-	38
Deferred income	9,215	8,847
Deferred income (Grant-in-aid)	2,634	4
Deferred income (WTA Receipts)	1,119	16
<b>Total trade and other payables: current liabilities</b>	<b>28,428</b>	<b>21,584</b>

The Government's target for payments to suppliers is five days for 80 per cent of undisputed invoices. In addition to small and medium suppliers, Ofcom also includes large suppliers in this scheme to encourage them to pay their small business suppliers within the shorter timeframe.

For 2019/20 Ofcom achieved on average a performance of 97.92 per cent against these targets (2018/19: 96.97 per cent).

The movement in trade payables and accruals is primarily due to grants payable in relation to clearance of 700MHz spectrum, which was subsequently paid in 2020/21.

Other payables include funds received from a landlord regarding the refurbishment of the landlord's property and equipment.

## 15. Trade and other payables: non-current liabilities

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
Lease incentive accrual	-	41
Deferred income	1,290	959
<b>Total trade and other payables: non-current liabilities</b>	<b>1,290</b>	<b>1,000</b>

## 16. Lease Liabilities

A maturity analysis of lease liabilities based on undiscounted gross cash flows is reported in the table below:

	Buildings £'000	Vehicles £'000	Other £'000	As at 31 March 2020 £'000	As at 31 March 2019 £'000
<b>Maturity analysis - contractual cash flows: undiscounted</b>					
Less than one year	4,837	103	77	5,017	-
One to five years	19,828	80	118	20,026	-
More than five years	29,462	-	-	29,462	-
<b>Total lease liabilities: undiscounted</b>	<b>54,127</b>	<b>183</b>	<b>195</b>	<b>54,505</b>	<b>-</b>

Ofcom does not face a significant liquidity risk with regard to its lease liabilities.

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
<b>Amounts recognised in the statement of financial position</b>		
Lease liabilities: current	4,052	-
Lease liabilities: non-current liabilities	44,522	-
<b>Total lease liabilities: discounted</b>	<b>48,574</b>	<b>-</b>

Leases are discounted at a single nominal rate for leases, which for the full 2020 calendar year is 1.27 per cent. Leases that transition to IFRS 16 prior to January 2020 and in the 2019 calendar year are discounted at prior year discount rate of 1.99 per cent, in accordance with HMT Treasury direction.

Each lease generally imposes a restriction that, unless there is a contractual right for Ofcom to sublet the asset to another party, the right-of-use asset can only be used by Ofcom. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. Ofcom is prohibited from selling or pledging the underlying leased assets as security. For leases over buildings, Ofcom must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, Ofcom must insure right-of-use assets and incur maintenance fees on such assets in accordance with the lease contracts.

	As at 31 March 2020 £'000	As at 31 March 2019 £'000
<b>Amounts recognised in the Statement of Comprehensive Net Income</b>		
Interest on lease liabilities (included in finance costs)	1,042	-
Expenditure relating to short-term leases (included in other operating expenditure)	39	-
Expenditure relating to leases of low-value assets (included in other operating expenditure)	22	-
<b>Amounts recognised in the Statement of Cash Flows</b>		
Total cash outflow for leases	(4,893)	-

## 17. Provisions for liabilities and charges

	Early retirement £'000	Legal £'000	Total £'000
<b>At 1 April 2018</b>	<b>213</b>	<b>-</b>	<b>213</b>
Discount unwound and changes in rate (included in finance costs)	(1)	-	(1)
Utilised in year	(30)	-	(30)
Provision increased	-	232,000	232,000
<b>At 31 March 2019</b>	<b>182</b>	<b>232,000</b>	<b>232,182</b>
Discount unwound and changes in rate (included in finance costs)	16	-	16
Utilised in year	(32)	(231,972)	(232,004)
Provision increased	-	2,972	2,972
<b>Total provisions as at 31 March 2020</b>	<b>166</b>	<b>3,000</b>	<b>3,166</b>

	Early retirement £'000	Legal £'000	Total £'000
<b>Analysis of expected timing of cashflows</b>			
<b>Current</b>			
Less than one year	14	3,000	3,014
<b>Total current</b>	<b>14</b>	<b>3,000</b>	<b>3,014</b>
<b>Non-current</b>			
One to five years	46	-	46
More than five years	106	-	106
<b>Total non-current</b>	<b>152</b>	<b>-</b>	<b>152</b>
<b>Total provisions as at 31 March 2020</b>	<b>166</b>	<b>3,000</b>	<b>3,166</b>

The provision for early retirement of £166k (2018/19: £182k) is for Annual Compensation Payments (ACP) which is part of the severance package for some colleagues who transferred to Ofcom on their old Civil Service terms and conditions of employment.

Provisions are calculated in accordance with the requirements of IAS 37. Provisions for early retirement are discounted by -0.50 per cent (2018/19: 0.29 per cent) per annum in accordance with HM Treasury direction; all other provisions with a time boundary of 1 to 5 years are discounted by the short term discount rate of 0.51 per cent (2018/19: 0.76 per cent) and for provisions with a time boundary of 5 to 10 years the medium term rate of 0.55 per cent (2018/19: 1.14 per cent).

Ofcom's regulatory decisions may be subject to appeal. Appeals against Ofcom's decisions could give rise to liabilities for legal costs. Ofcom will make a provision in the financial statements for costs to the extent they are probable and quantifiable.

Following the Annual Licence Fee (ALF) appeal outcome in February 2020, one third party has an ongoing appeal to the Court of Appeal seeking further penal interest on the original ALF repayment sum. This will now proceed (expected in June 2020), in which they will be seeking additional interest plus costs.

## 18. Amounts receivable under operating leases

	As at 31 March 2020	As at 31 March 2019
	Buildings	Buildings
	£'000	£'000
<b>The future minimum lease payments receivable under non-cancellable operating leases are as follows:</b>		
Less than one year	-	9
One to five years	-	-
More than five years	-	-
<b>Total amounts receivable under operating leases</b>	<b>-</b>	<b>9</b>

Ofcom sub-lease contracts with regards to surplus office space within several of its office buildings have break options or leases ending in 2019/20.

## 19. MG Alba

In accordance with Section 210 of the Communications Act 2003 and Section 183 of the Broadcasting Act 1990, the Scottish Ministers paid £12,950k (2018/19: £13,355k) to Ofcom. The sums have not been reflected in Ofcom's financial statements as these are subsequently paid by Ofcom to the Gaelic Broadcasting Fund under the management of the Seirbheis nam Meadhanan Gàidhlig (MG Alba). MG Alba prepares separate reports and financial statements to 31 March each year. These are sent by Ofcom to the Secretary of State for Scotland and Scottish Ministers to be laid before the Scottish Parliament.

## 20. Retirement benefit obligations

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

### a) Defined contribution plan – stakeholder pension plan

Ofcom's primary means of providing pension benefits to its colleagues is by contributing to a stakeholder pension plan. Employer contributions of £6,070k were made in the year ended 31 March 2020 (2018/19: £5,732k). There is also a defined contribution section in the Ofcom Defined Benefits Pension Plan. However, this is now closed and no further contributions are being made to this arrangement.



## b) Defined benefit pension plans

Ofcom operates two defined benefit pension plans, although both closed to future accrual on 1 June 2011:

- The Ofcom Defined Benefit Pension Plan was established on 29 December 2003. The employer contribution made to the Ofcom Defined Benefit Pension Plan for the year ending 31 March 2020 was £5k in relation to Plan expenses (2018/19: £3k). Employer contributions of £360k were transferred from the Feeder Trust account to the Plan in the year ending 31 March 2020 (2018/19: £360k); and
- The Ofcom (Former ITC) Pension Plan which Ofcom jointly participates in with three other organisations, S4C, S4C Masnachol and the Advertising Standards Authority. The employer contribution made to the Ofcom (Former ITC) Pension Plan for the year ending 31 March 2020 was £10k in relation to Plan expenses (2018/19: £10k). Employer contributions of £180k were transferred from the Feeder Trust account to the Ofcom (Former ITC) Pension Plan in the year ending 31 March 2020 (2018/19: £185k).

Both of these Plans are managed by a Board of Trustees that is independent of Ofcom.

Ofcom's cash contributions to these two plans are determined in accordance with the Pensions Act 2004. This requires a significantly more prudent measure of the liabilities than IFRS. Pensions Act funding valuations with an effective date of 31 March 2018 were completed for both defined benefit plans and, unlike under IFRS, showed a combined surplus of £5.3m.

Contribution schedules were agreed with the Trustee of both plans as a result of these valuations. Under the existing schedules Ofcom would be expecting to contribute £540k to the two defined benefit plans over the next

12 months to cover Plan expenses. These contributions are payable from the Feeder Trust. Ofcom has also agreed to pay other levies directly. This compares to £555k paid over the year to 31 March 2020 (including the contribution paid from the Feeder Trust).

Ofcom operates a Feeder Trust account, which is incorporated within the Pension Scheme Assets. Funds transferred to and held in the trust account can only be paid into one of the two Defined Benefit Pension Plans and are not able to be used for any other purpose. The Ofcom Feeder Trust is the mechanism by which Ofcom sets aside funds in order to make future contributions and to meet the running costs of its two defined benefit pension plans, the Ofcom Defined Benefit Pension Plan and the Ofcom (former ITC) Staff Pension Plan.

Funds transferred to the Ofcom Feeder Trust are recognised in the financial year in which the transfer is made but these funds may then be used in future periods. Monies retained in the Feeder Account can only be used for funding the pension plans in accordance with the schedule of contributions for each Plan or by an ad hoc payment approved by Ofcom in respect of a particular project (such as a risk reduction exercise) as well as meeting the running costs of the plans.

Ofcom contributed in year ended 31 March 2020 £540k into the Feeder Trust (2018/19: £540k). The balance of the Feeder Trust as at 31 March 2020 was £8,389k (2018/19: £8,345k).

Ofcom is also responsible for meeting the unfunded pension liabilities for former Chairmen of the Independent Television Commission and the Radio Authority as well as former Directors General of Telecommunications. The pension provision is unfunded, with the benefits being paid as they fall due and guaranteed by Ofcom. There is no fund, and therefore no surplus or deficit. Actuarial advice has been sought to ensure that the provision is set at a realistic level.

## GMP equalisation

Following the High Court ruling in the Lloyds Bank case on 26 October 2018, which determined that schemes must adjust benefits so as to equalise Guaranteed Minimum Pensions (GMPs) between men and women, Ofcom made an allowance for the potential impact of this at the previous year-end. This was allowed for as a past service cost in the Statement of Comprehensive Net Income. An allowance of £284k was made in respect of the Ofcom (Former ITC Plan) and an allowance of £14k was made in respect of the Ofcom Defined Benefit Plan.

An additional past service cost of £377k has been allowed for in the Defined Benefit Plan. This is a result of a Deed of Amendment which was executed in respect of the Ofcom Defined Benefit Plan on 28 July 2018. As a result of these rule amendments, the benefits of some pensioner members had to be recalculated, leading to an increase in their benefits.

The ultimate cost of equalising members' GMPs will not be known until they have been fully equalised (which is likely to be a number of years away).

## Potential changes to RPI

The UK Statistics Authority (UKSA) has advised that it intends to change the Retail Price Index (RPI), by 2030 at the latest, to bring it in line with CPIH (the Consumer Prices Index including owners-occupiers' housing costs). The Government is intending to commence a public consultation on the matter this year, with the earliest effective date of any change in 2025. In response to this announcement, the derivation of RPI and CPI inflation assumptions were reviewed at 31 March 2020. Ofcom have determined that the market-implied RPI inflation curve remains a reasonable basis for estimating long term future RPI-linked pension increases, including the potential changes in the RPI index to CPIH, and the derivation of the RPI inflation assumption at 31 March 2020 has remained consistent with prior years. For the derivation of the CPI assumption, Ofcom have determined that it is appropriate to reduce the assumed difference between RPI and CPI (known as the "RPI-CPI wedge") by 0.15% to 0.85% at 31 March 2020, taking into account the DB plans' characteristics and membership profiles.

The inflation assumptions will be reviewed once more information is provided by the government next year as part of the consultation.

## Summary of Ofcom's defined benefit pension obligations

The amounts recognised in the Statement of Financial Position are as follows:

	Defined benefit pensions funded	Unfunded pensions liability	Total retirement benefits	Defined benefit pensions funded	Unfunded pensions liability	Total retirement benefits
	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000
Funded status, end of year						
- Benefit obligation in respect of deferred members	(67,572)	-	(67,572)	(77,115)	-	(77,115)
- Benefit obligation in respect of pensioner members	(169,804)	(1,085)	(170,889)	(190,080)	(1,211)	(191,291)
<b>Total benefit obligations</b>	<b>(237,376)</b>	<b>(1,085)</b>	<b>(238,461)</b>	<b>(267,195)</b>	<b>(1,211)</b>	<b>(268,406)</b>
Fair value of plan assets	259,802	-	259,802	284,886	-	284,886
<b>Funded status</b>	<b>22,426</b>	<b>(1,085)</b>	<b>21,341</b>	<b>17,691</b>	<b>(1,211)</b>	<b>16,480</b>

IAS19 requires that, where a scheme is in surplus according to IAS19 assumptions, the surplus can only be recognised on Ofcom's Statement of Financial Position if an economic benefit is available to Ofcom as a result. All of the surplus is attributed to the DB Plan and Feeder Account which has economic value as it can be recovered by Ofcom.

## Covid-19

Covid-19 has resulted in significant market volatility impacting both asset values and market yields, which in turn has impacted the pensions in Statement of Financial Position. In particular, for the Ofcom Defined Benefit Pension Plan, there is a mis-match between the change in liabilities due to changes in the IAS19 corporate bond discount rate and the movement in the plans assets over the year. This has been primarily driven by the increase in credit spreads on corporate bonds.

## Changes over the year to 31 March 2020

	Defined benefit obligation	Assets	Funded pension scheme	Unfunded pensions	Total pension
	£'000	£'000	£'000	£'000	£'000
Opening value as at 1 April 2019	(267,195)	284,886	17,691	(1,211)	16,480
Administration expenses	-	(686)	(686)	-	(686)
Service cost	-	-	-	-	-
Interest income/(cost)	(6,127)	6,536	409	(27)	382
Employer contributions	-	555	555	-	555
Benefits paid from scheme assets	13,012	(13,012)	-	-	-
Benefits paid directly by Ofcom	-	-	-	76	76
<b>Benefits paid total</b>	<b>13,012</b>	<b>(13,012)</b>	<b>-</b>	<b>76</b>	<b>76</b>
<b>Remeasurements</b>					
Actuarial gains/(losses)	22,934	(18,477)	4,457	77	4,534
<b>Closing value as at 31 March 2020</b>	<b>(237,376)</b>	<b>259,802</b>	<b>22,426</b>	<b>(1,085)</b>	<b>21,341</b>

## Changes over the year to 31 March 2019

	Defined benefit obligation	Assets	Funded pension scheme	Unfunded pensions	Total pension
	£'000	£'000	£'000	£'000	£'000
Opening value as at 1 April 2018	(265,558)	283,727	18,169	(1,142)	17,027
Administration expenses	-	(668)	(668)	-	(668)
Service cost	(675)	-	(675)	-	(675)
Interest income/(cost)	(6,628)	7,095	467	(28)	439
Employer contributions	-	553	553	-	553
Benefits paid from scheme assets	11,341	(11,341)	-	-	-
Benefits paid directly by Ofcom	-	-	-	-	-
<b>Benefits paid total</b>	<b>11,341</b>	<b>(11,341)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Remeasurements</b>					
Actuarial gains/(losses)	(5,675)	5,520	(155)	(41)	(196)
Closing value as at 31 March 2019	(267,195)	284,886	17,691	(1,211)	16,480

**The amounts recognised in the Statement of Comprehensive Net Income are as follows:**

31 March 2020	Funded pension	Unfunded pension	Total pensions
	£'000	£'000	£'000
Service cost	-	-	-
Interest income/(cost)	409	(27)	382
<b>Defined benefit credit/(cost) recognised in comprehensive income</b>	<b>409</b>	<b>(27)</b>	<b>382</b>
Administration expenses	(686)	-	(686)
<b>Net income/(cost) recognised in comprehensive income</b>	<b>(277)</b>	<b>(27)</b>	<b>(304)</b>

**The amounts recognised as Other Comprehensive Income/ (Expenditure) are as follows:**

31 March 2020	Funded pension	Unfunded pension	Total pensions
	£'000	£'000	£'000
Gains/(losses) on benefit obligations due to changes in financial assumptions	21,480	77	21,557
Gains/(losses) on benefit obligations due to changes in demographic assumptions	(187)	-	(187)
Gains/(losses) on benefit obligations as a result of member experience	1,641	-	1,641
<b>Total gains/(losses) arising on benefit obligations</b>	<b>22,934</b>	<b>77</b>	<b>23,011</b>
Gains/(losses) on plan assets	(18,477)	-	(18,477)
<b>Net gains/(losses)</b>	<b>4,457</b>	<b>77</b>	<b>4,534</b>

Ofcom and the Plans' Trustees have implemented a number of steps to provide protection against events that cause a deterioration in the funding positions. In particular, annuity policies meet the benefit payments of pensioner members in both Plans and all non-pensioner members in the ITC Plan. However, movements in market conditions can still have an impact on the funding positions particularly on the DB Plan.

**The amounts recognised in the Statement of Comprehensive Net Income are as follows:**

31 March 2019	Funded pension	Unfunded pension	Total pensions
	£'000	£'000	£'000
Service cost	(675)	-	(675)
Interest income/(cost)	467	(28)	439
<b>Defined benefit credit/(cost) recognised in comprehensive income</b>	<b>(208)</b>	<b>(28)</b>	<b>(236)</b>
Administration expenses	(668)	-	(668)
<b>Net income/(cost) recognised in comprehensive income</b>	<b>(876)</b>	<b>(28)</b>	<b>(904)</b>

**The amounts recognised as Other Comprehensive Income/(Expenditure) are as follows:**

31 March 2019	Funded pension	Unfunded pension	Total pensions
	£'000	£'000	£'000
Gains/(losses) on benefit obligations due to changes in financial assumptions	(12,660)	(41)	(12,701)
Gains/(losses) on benefit obligations due to changes in demographic assumptions	13,128	-	13,128
Gains/(losses) on benefit obligations as a result of member experience	(6,143)	-	(6,143)
<b>Total gains/(losses) arising on benefit obligations</b>	<b>(5,675)</b>	<b>(41)</b>	<b>(5,716)</b>
Gains/(losses) on plan assets	5,520	-	5,520
<b>Net gains/(losses)</b>	<b>(155)</b>	<b>(41)</b>	<b>(196)</b>

Ofcom and the Plans' Trustees have implemented a number of steps to provide protection against events that cause a deterioration in the funding positions. In particular, annuity policies meet the benefit payments of pensioner members in both Plans and all non-pensioner members in the ITC Plan. However, movements in market conditions can still have an impact on the funding positions particularly on the DB Plan.

**The major categories of plan assets as a percentage of total plan assets are as follows:**

	31 March 2020 (%) Total	31 March 2019 (%) Total
Global equities (not currency hedged)	2	2
Global equities (currency hedged)	2	2
Corporate bonds	6	3
Index-linked government bonds	5	4
Diversified growth fund	4	4
Liability driven investment portfolio	6	7
Annuities	73	75
Cash and cash equivalents	2	3
<b>Total</b>	<b>100</b>	<b>100</b>

Ofcom and the Plans' Trustees have implemented a number of steps to reduce the level of investment risk. In particular, both main defined benefit plans hold annuity policies that largely eliminate risk in respect of most members and the Ofcom Defined Benefit Pension Plan has a strategy in place that will increase the allocation to lower risk assets that better match liabilities, such as gilts and bonds, when it is affordable to do so.

**Principal economic assumptions at the date of the Statement of Financial Position:**

	31 March 2020 (%) Total	31 March 2019 (%) Total
Discount rate	2.45	2.35
Retail Price Inflation	2.65	3.25
- Future pension increases (RPI)	2.65	3.25
- Future pension increases (CPI max 3%)	1.70	2.00



**The Ofcom pension plan is composed of two separate plans and the Principal demographic assumptions at the date of the Statement of Financial Position are as follows:**

	DB Plan	DB Plan	ITC Plan	ITC Plan
Expected lifetime of a member aged 60 who is...	Currently aged 40	Currently aged 60	Currently aged 40	Currently aged 60
Male	29	27	29	28
Female	31	30	31	30

### Sensitivity to changes in principal assumptions used

Change in assumption	Impact on					
	DB Plan			ITC Plan		
	Defined benefit obligations	Assets	Funded status surplus	Defined benefit obligations	Assets	Funded status surplus
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Discount rate</b>						
Increases by 0.50%	decrease by £5,244	decrease by £5,264	decrease by £20	decrease by £10,229	decrease by £10,229	No change
Falls by 0.50%	increase by £5,986	increase by £6,103	increase by £117	increase by £11,359	increase by £11,359	No change
<b>Retail Price Inflation</b>						
Increases by 0.50%	increase by £5,684	increase by £5,257	decrease by £427	increase by £9,329	increase by £9,329	No change
Falls by 0.50%	decrease by £4,931	decrease by £4,536	increase by £395	decrease by £8,294	decrease by £8,294	No change
<b>Expected lifetime of a member aged 60</b>						
Increases by 1 year	increase by £2,253	increase by £653	decrease by £1,600	increase by £9,248	increase by £9,248	No change
Decreases by 1 year	decrease by £2,174	decrease by £647	increase by £1,527	decrease by £8,784	decrease by £8,784	No change

### Liability profile of defined benefit plans

The charts below illustrate the expected benefits payable by the respective Plans at the most recent actuarial valuation (March 2018) over the next 80 years.

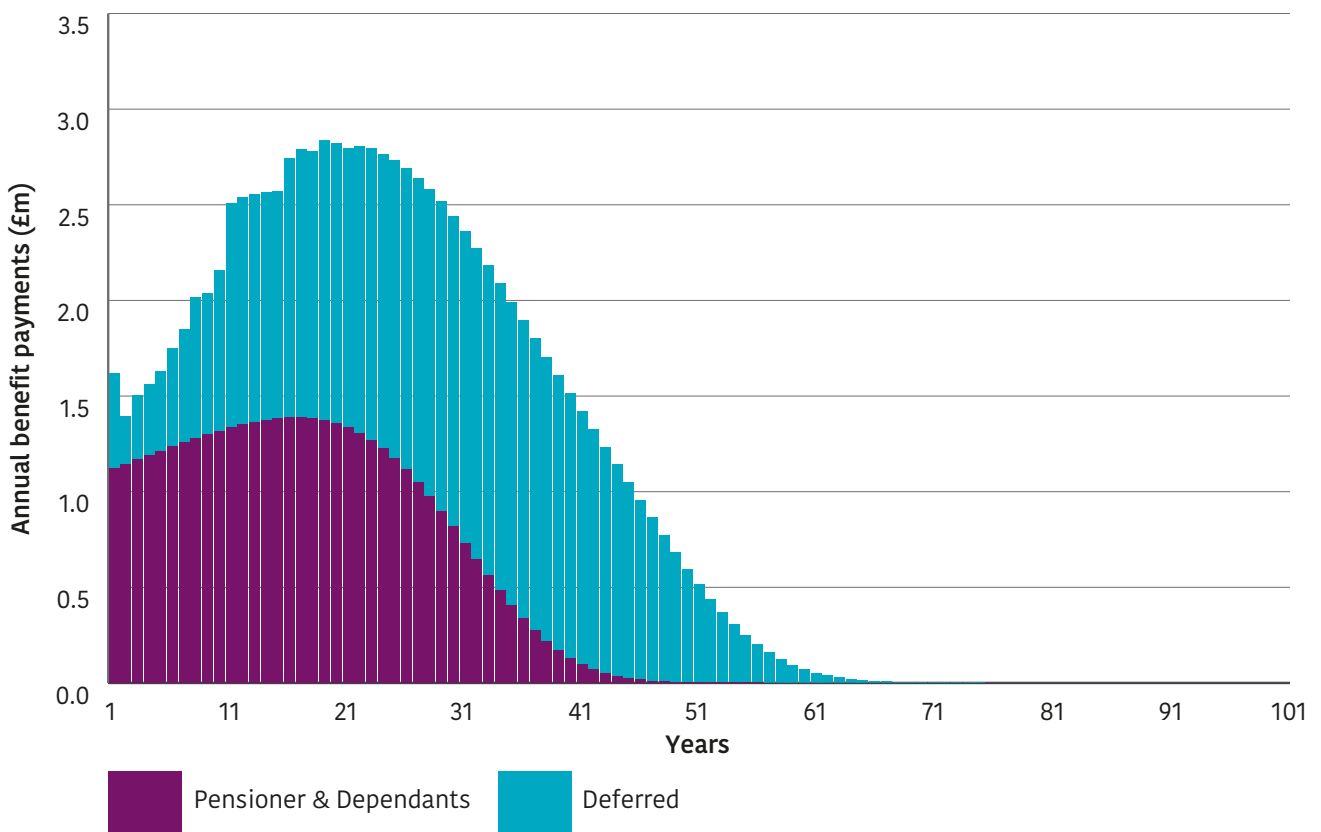
The expected future benefit payments are calculated based on a number of assumptions

including future inflation, retirement ages, benefit options chosen and life expectancy and are therefore inherently uncertain.

The actual benefit payments in a given year may be higher or lower, for example if members retire sooner or later than assumed, or take a greater or lesser cash lump sum at retirement.

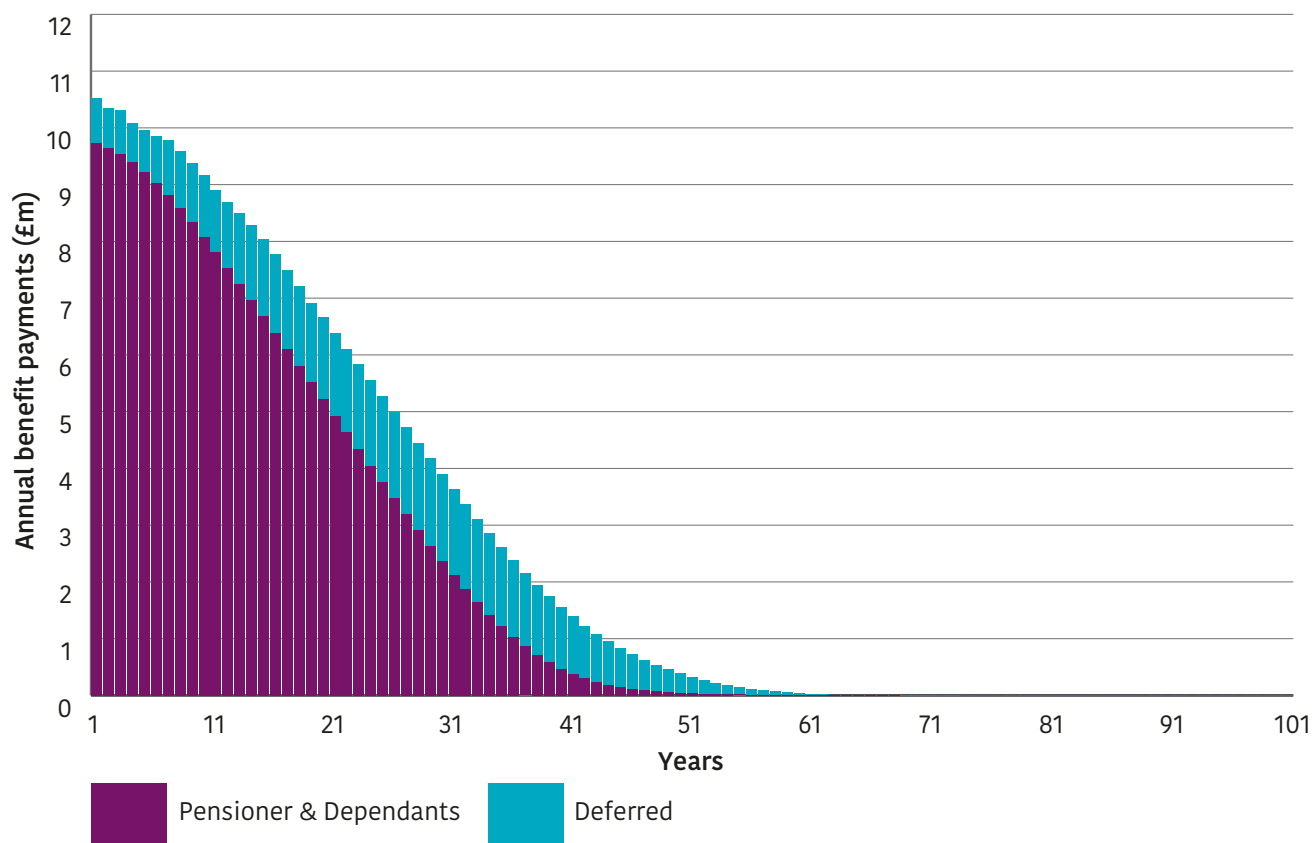
### Ofcom Defined Benefit Pension Plan

The duration (average term to payment) of the Plan’s liabilities is 19 years



## Ofcom (Former ITC) Pension Plan

The duration (average term to payment) of the Plan's liabilities is 13 years



## 21. Financial instruments

Ofcom has no significant exposure to liquidity, interest rate or currency risks. IAS 32, Financial Instruments: Presentation requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the nature of its activities and the way in which Ofcom is financed, it is not exposed to the degree of financial risk faced by business entities.

Moreover, financial instruments play a limited role in creating or changing risk as compared to listed companies to which IAS 32 mainly applies. Ofcom has very limited powers to borrow or invest surplus funds. Financial assets and liabilities that are generated by day-to-day operational activities do not change the risks facing Ofcom in undertaking its activities.

There is no material difference at the reporting date between the fair value and the carrying value of financial assets and liabilities.

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

## 22. Related parties

Ofcom does not consider that its regulatory and licensing role creates the relationship of a related party between itself and licence holders as defined by IAS 24, Related Party Disclosures.

Members of the Board have not declared any interests prejudicial to their functions as a Member of Ofcom. There were no transactions between Ofcom and its Members other than remuneration as disclosed separately in the remuneration report.

The Secretaries of State for the Department for Business, Energy and Industrial Strategy (BEIS) and the Department for Digital, Culture, Media and Sport (DCMS) are regarded as the controlling related parties of Ofcom under the terms of the Office of Communications Act 2002.

Details of all grant-in-aid revenue from DCMS are provided in Notes 2, 3, 11 and 14 of these financial statements.

A defined contribution pension scheme and two defined benefit pension schemes are operated. One of the two defined benefit schemes (both closed to future accruals) has a related party of S4C. Refer to Note 20 for further disclosure.

At 31 March 2020, the following payable was held in respect of grant-in-aid due by DCMS:

- Spectrum clearance – £2,590k (2018/19: £310k receivable)

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

## 23. Capital commitments

At 31 March 2020, there were capital commitments of £1,323k (2018/19: £1,453k) relating to the landlord's funded capital commitment for the refurbishment work to their owned property.

## 24. Receipts transferred to/from the Consolidated Fund

In accordance with Section 400 of the Communications Act 2003, Ofcom remitted £10,985k (2018/19: £8,493k) of Broadcasting Act Additional Payments, Geographical Numbering and Fines to the Consolidated Fund.

In accordance with Section 401 of the Communications Act 2003, Ofcom retained £56,828k (2018/19: £54,305k) of WTA receipts to fund its relevant expenditure which include Spectrum Management.

WT Act license fees of £312,800k (2018/19: £239,942k) was remitted to DCMS for transfer to the Consolidated Fund. There is no WT Act Auction proceeds this financial year (2018/19: £1,370,354k).

## 25. Events after the reporting period

In accordance with the requirements of IAS 10 Events after the Reporting Period, post year end events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

## 26. Going concern

The future financing of Ofcom's liabilities is met through annual sector tariffs from regulated stakeholders and from WTA receipts retention collected through the Section 400 accounts and retained by Ofcom to fund spectrum related activities together with other non-tariff funded activities, as set out in Section 401 of the Communication Act. The Ofcom spending cap is agreed by HMT and DCMS, approval for the amounts required for the 2020/21 year has already been approved. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Since the start of the Covid-19 crisis, Ofcom has adapted to alternative working arrangements. Ofcom believes Covid-19 has no impact on the basis for going concern.