

Section 5

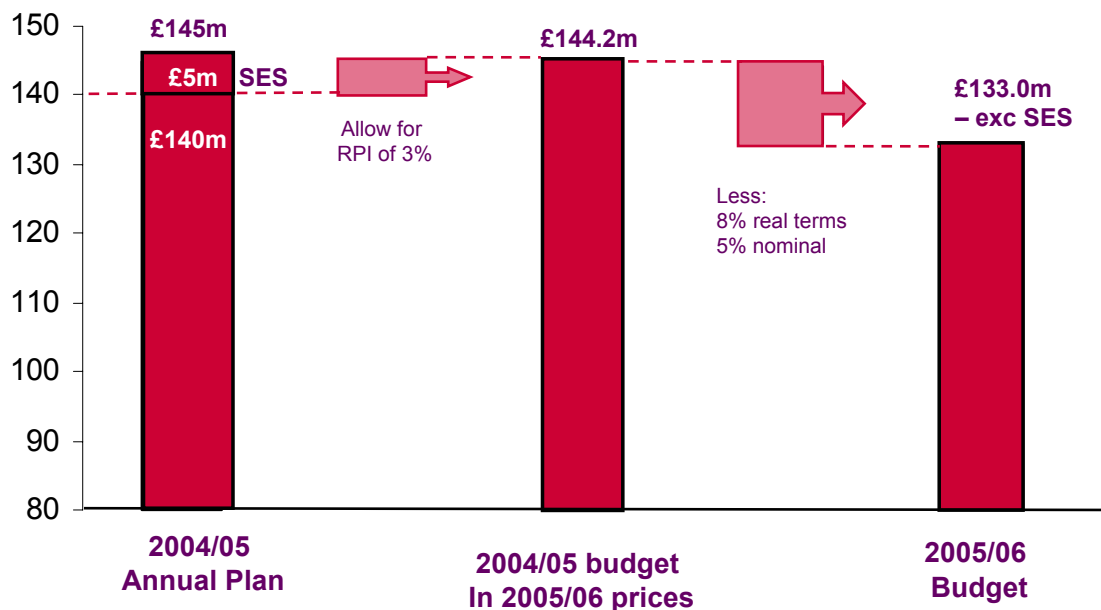
Finance and effectiveness

Finance

Comparison of overall costs with 2004/05 and with the legacy regulators

- 5.1 In bringing together the previous regulators, Ofcom has already delivered a five per cent saving on a like for like basis, reducing colleague numbers by over 300. We are now committed to being an "RPI minus X" regulator and to achieving a five per cent saving during the 2004/05 financial year, with a further five per cent to be saved in 2005/06.
- 5.2 The total cost of the five legacy regulators in their last year of operation was £136m (in 2004/05 prices). On a like-for-like basis, Ofcom's costs for 2004/05 were set at £129m, approximately £7m less than the previous regulators combined. However, as identified in the 2004/05 Annual Plan, Ofcom's new duties and non-reclaimable VAT added some £16m a year to its costs. As a result, for 2004/05 Ofcom set a budget of £145m. Of this £5m was a special grant funded by the Government for work on increasing spectrum efficiency. This is known as the Spectrum Efficiency Scheme ('SES').
- 5.3 For 2005/06 Ofcom will cost £133m (excluding spend on SES). This is a five per cent saving in nominal terms (around eight per cent in real terms). By setting this level of budget Ofcom will more than meet its commitment to cost reductions for this year.
- 5.4 In real terms, Ofcom will cost five per cent less in 2005/06 than the former regulators combined, despite having new duties and increased VAT costs. Figure 5.1 sets out the overall comparison between Ofcom's costs in 2004/5 and 2005/6.

Figure 5.1 Ofcom costs: Comparison of 2004/05 costs with those for 2005/06



- 5.5 It should be noted that the Government grant for the SES is not included in this comparison. £5m SES spend was included in the 2004/05 budget and £5m is budgeted for 2005/06. Ofcom will be negotiating with the Treasury about carrying forward into 2005/06 any budget provision not spent in 2004/05.
- 5.6 Of the £133m budget, it is envisaged that £6.4m will be capital expenditure, subject to final consultation. The budget is based on an adjusted cash basis, which includes capital expenditure but excludes depreciation. Ofcom's total costs on a Profit and Loss (P&L) basis – including interest and depreciation, but excluding capital expenditure – are expected to be £135.6m.

Loan repayment / Ofcom launch costs

- 5.7 However, stakeholders have also had to fund the cost of setting up Ofcom. As set out in Ofcom's 2004/05 annual plan, the initial set-up costs incurred by Ofcom for the period March 2003 to January 2004 have been met through loan funding of £52.3m from the Department of Trade and Industry. The loan plus interest is repayable by Ofcom, which must recover these costs from stakeholders. These costs are substantial – some £20m in 2004/5 and £19m for 2005/6. (See figure A4.1 in Annex 4 for a restatement of the phasing of repayments.)
- 5.8 The loan will have been repaid in full by the end of the 2007/8 year, then substantially reducing the costs passed on to stakeholders.

People

- 5.9 Part of the efficiency savings achieved by Ofcom over 2004/05 have been due to reducing colleague numbers. The five organisations Ofcom replaced had a total of 1,150 colleagues. Ofcom budgeted for around 880 at the start of 2004/05. Over the course of 2004/05 there have been further reductions and headcount budgeted for the start of 2005/06 is 825.

Source of funds

- 5.10 Ofcom has three main areas of regulatory responsibility – Networks and Services, Spectrum Management and broadcasting activity. Broadcasting activity is further split between TV and radio. This split is important in terms of how Ofcom raises its funding. Details of the basis of the cost allocation are the subject of a separate Ofcom document on the "Statement of Charging Principles" and are not given here.

Efficiency savings

- 5.11 Efficiency savings have been made across the board. Many of the initiatives started in 2004/05 will be fully implemented in 2005/06.
- 5.12 Particular progress has been made in our various operational areas. For example:
- In Field Operations we are:
 - ceasing routine spectrum compliance inspections, focusing instead on enforcement and investigative inspections;
 - rationalising accommodation in the Nations and Regions by closing small remote field offices;

- rationalising field teams, and vehicle and test equipment;
- improving IS systems.
- In Licensing we are:
 - deregulating certain licence classes – and will accelerate the deregulation of further licence classes (including Amateur, CB, Aero and Maritime);
 - simplifying processes, for example, automating licensing and frequency assignment so they are available online.
- In Ofcom's Contact Centre we are:
 - developing the principle of 'service provider first' for complaints – putting the onus on the service provider who is the subject of the complaint to have primary responsibility for dealing with it – and will extend this to 'broadcaster first' next year.
 - developing the internet for complaint submission.

5.13 There are other areas where efficiencies are being introduced and we are seeking to improve our effectiveness:

- technology research has been reviewed and refocused to ensure Ofcom's research programme supports our strategic priorities;
- co-regulation is being used to ensure responsibility is placed on those best placed to carry out the work – for example, advertising regulation has already moved to the Advertising Standards Authority, and we will be seeking further co-regulatory solutions in 2005/06;
- duplication of work has been removed – for example the market research programme has been rationalised to remove overlaps between the research programmes carried out by our predecessor regulators;
- investment in IS systems will allow more efficient working and enhance the control environment, for example, an improved finance system and a new electronic records management system.

5.14 Looking ahead over the next three years, we expect there to be a shift in focus away from managing spectrum as this will be increasingly subject to market mechanisms. This will change Ofcom's resource requirements, although the scale and pace of change will depend on how quickly market mechanisms take off.

Evaluating our effectiveness

5.15 Ofcom has developed a framework for evaluating its performance which comprises four key areas (see figure 5.2):

- Stakeholder perceptions – Ofcom has a programme of work which seeks feedback from all of our key stakeholders on a wide range of issues relating to how we perform, including for example, perceptions of our decision making, the quality of our outputs and how well we have consulted.
- Market development – Ofcom's success in achieving its policy objectives will be seen in the markets that we regulate. Our market research group tracks a wide range of market developments on a regular basis. Key indicators will be analysed and presented as an indicator of Ofcom's performance – while recognising that Ofcom is one of many factors influencing the market, and that there is a lead time before our policies become effective.

- Achieving our objectives – in this consultation document we have reaffirmed our commitment to our mission and regulatory principles. We will seek to evaluate how well these principles have been applied in our work, for example, the use we make of Impact Assessments, whether we are reducing – or adding to – regulation, and measuring whether we achieve the outcomes intended.
- Internal efficiency and effectiveness – this will include Key Performance Indicators (KPIs) relating to the service level that we deliver to those in direct contact with us, such as members of the public with complaints or small businesses seeking a routine licence. We will ask these service users for their opinions of the service level they received. In addition, we will present key financial and operating statistics.

Figure 5.2: Ofcom’s framework for evaluation

