

24 May 2017

Mr Edward Mountain MSP
Convenor
Rural Economy and Connectivity Committee
Scottish Parliament
Edinburgh
EH99 1SP

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Dear Mr Mountain,

Rural Economy and Connectivity Committee: Ofcom Annual Plan Session on 26 April 2017

Thank you for inviting Clive Carter and I to give evidence to the Committee following the publication of Ofcom's Annual Plan for 2017/18. We look forward to continuing our engagement with the Committee over the coming months.

During the session, I said I would provide Committee members with additional information in writing. I agreed to clarify Ofcom's funding arrangements following the introduction of the Digital Economy Act 2017 and set out the amount of money raised through recent spectrum auctions.

Ofcom is currently funded in part from industry (via a combination of administrative charges and licence fees) and from the UK Government, in the form of grant-in-aid for its spectrum management work and several other functions for which Ofcom otherwise has no power to raise fees. Ofcom also currently collects licence fees for the use of spectrum, which it passes on to the UK Government via the Consolidated Fund.

The Digital Economy Act 2017 provides Ofcom with a power to retain a proportion of those spectrum licence fees, in order to cover the cost of the functions that have previously been funded by Government through grant-in-aid. So instead of Ofcom collecting spectrum licence fees, paying them to the Consolidated Fund and then receiving grant-in-aid back from Government, Ofcom will retain a portion of the spectrum licence fees it levies, and pass the balance to the Consolidated Fund. This has the effect that Ofcom's day-to-day work will be entirely funded from industry sources.

In order to retain spectrum fees in this way, Ofcom must publish a statement of principles setting out how any such retention will be calculated and operated, and this statement must be approved by both the UK Department for Culture, Media and Sport and HM Treasury.

However, a distinction should be made between the above process and the fines we can levy on companies as a result of enforcement action. Ofcom takes enforcement action across several industry sectors and can use a range of administrative powers granted by, amongst others, the Communications Act 2003, the Postal Services Act 2011, the Competition Act 1998 and consumer protection legislation. All financial penalties imposed by Ofcom are held in an account with Government Banking Services (GBS) for the benefit of the Exchequer. Funds are transferred to the HM Treasury GBS account for direct use by the Exchequer, or distributed to relevant Consolidated Funds. Ofcom neither receives financial benefits from nor makes use of any financial penalties received.

I was also asked by Richard Lyle MSP to provide the Committee with precise figures relating to mobile spectrum auctions:

“How much the UK Government has made from auctioning the services over the past 5 or 10 years? Value of recent auction receipts. (Richard Lyle, Col 30/31)”

The 4G spectrum bands (800 MHz and 2.6 GHz) were auctioned for £2.34 bn in early 2013. This is the only auction of “mobile” spectrum” Ofcom has run in the last 10 years; the previous 3G auction was in 2000. Prior to the 4G spectrum auction, the previous auctions were of the L band spectrum in 2008 which was auctioned for £8.33 m and the 10-40GHz auction in 2007 which was auctioned for £1.44 m

I hope this sufficiently answers the Committee’s questions but please do not hesitate to contact me should you require any further information about any Ofcom matter.

Yours sincerely

A handwritten signature in black ink that reads "Glenn Preston". The signature is written in a cursive, flowing style.

Glenn Preston

Director, Ofcom Scotland