

# Office of Fair Trading Annual Report and Accounts 2013 to 2014

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# **Office of Fair Trading Annual Report and Accounts 2013 to 2014**

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## 1 FOREWORD

The Office of Fair Trading (OFT) made markets work well for consumers for over forty years. It began this mission on 1 November 1973, when the Fair Trading Act 1973 came into force, and it closed on 31 March 2014.

In 2011, the Government started a programme of wide-ranging reforms to the competition, consumer protection and consumer credit regimes with the aim of providing greater protection for consumers, holding businesses firmly to account for their behaviour and promoting vibrant competition for the benefit of the economy and consumers. This involved the transition of all the OFT's functions to a range of successor organisations over a period of three years, with the most substantial changes taking place during the past twelve months.

As a consequence 2013-14 was a year of major change for the OFT and every member of staff was, in some way, involved in the transition to the new organisations. Yet it was also a year of substantial achievement across our portfolio of work. We are grateful to our staff for their commitment and resilience in keeping up the OFT's delivery right to the end and ensuring an effective transition of our work to our successors.

This year we set ourselves three key objectives; to **maximise our impact** across our portfolio, to **develop our people** by investing in their skills and to prepare them for the tasks ahead in the new organisations, and to **support transition** by working with our partners and successor organisations.

**Impact:** Delivery of our work did not stop or slow because of the changes that were in train during 2013-14. We continued with ground-breaking cases and applied robust analysis to some of the most important markets for UK consumers. Our resources were directed toward activities that helped to support consumers and economic growth by driving change in these markets. We also addressed topical issues, such as how new business models particularly those that are internet-based, affect consumers. Examples included our investigation into Amazon's online Marketplace for small traders, our hotel online booking case which concluded with the acceptance of formal commitments to change behaviour, and our work on children's online games and apps, on all of which there is more detail later in this report.

Our work protecting vulnerable consumers continued. Following a market study of the mobility aids sector we completed a competition enforcement case relating to the marketing and selling of mobility scooters. We issued a decision relating to an alleged cartel in the supply of medicines to care homes and also secured assurances from four quick house sale providers following a market study of the sector in 2012. We used our new power to suspend consumer credit licences four times, where there was an urgent need to protect consumers from harm. We continued our programme of enforcement and compliance in the payday lending sector, and in parallel we referred the entire payday sector

to the Competition Commission (CC) for a market investigation.

Our markets work was as important and high profile as ever. As part of the OFT's previously launched programme of work on retail banking, we announced that we would conduct a market study on competition in banking services for small and medium (SME) sized businesses. Having set out emerging concerns that competition may not have functioned well in this market, we passed the study across to our successor, the Competition and Markets Authority (CMA), to conclude. We also worked with Ofgem and the CMA to conduct an assessment of competition in the energy market, at a time when consumer trust in the gas and electricity sector remains low.

Across our portfolio we concluded seven consumer investigations, completed 12 markets projects and made one market investigation reference to the CC, and took 53 merger decisions which included eight merger references to the CC. With regard to Competition Act 1998 cases, we completed nine competition enforcement investigations, delivering four infringement decisions, one decision accepting commitments, one 'no grounds for action' decision, and three case closures on administrative priority grounds. In our credit licencing work 8,464 consumer credit licence applications were processed and 230 licences were not approved.<sup>1</sup>

**Developing staff & advancing performance:** The OFT's staff

continued to deliver high quality work in a climate of major change and considerable uncertainty. During this period we continued to invest in and develop the professional and technical skills our staff needed to deliver our work and to ensure the future success of the organisations taking over our work from April 2014. Following our Enforcement Review in 2012 we continued to develop the Enforcement Academy, which is covered in greater detail in the Organisational Delivery and Capability chapter later in this report.

We also invested in our processes. This year we used collective decision-making in Competition Act cases, paving the way for their use by the CMA. Case Decision Groups, introduced in 2012 to increase the robustness of our competition decisions and made up of senior OFT staff, met in five cases, resulting in three infringement decisions.

We also used Case Decision Groups for decision-making in credit licence suspension cases, again to ensure robust and fair decisions, especially given that the suspension of a licence is likely to prevent the trader from running the business in the same way, or at all.

**Supporting transition:** During 2013-14 we worked closely with the Department for Business, Innovation and Skills (BIS), the CC, the CMA, the Financial Conduct Authority (FCA), Her Majesty's Revenue and Customs (HMRC), and Trading Standards to facilitate and support transition to the organisations that took on our powers

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<sup>1</sup> Details of the OFT's 2013-14 actions can be found in the annexes to the report at [www.gov.uk/oft](http://www.gov.uk/oft).

and functions. For the CMA this involved providing support and in some cases leadership to 12 separate workstreams responsible for establishing the CMA and transferring people, systems and work to it. The OFT played a large role in developing guidance, new legal mechanisms and new ICT systems for the CMA, and in preparing for a move to a different building. The transfers of consumer credit regulation and anti-money laundering supervision to the FCA and HMRC respectively were led by those organisations, but OFT staff were closely involved in developing the new consumer credit regime and working out arrangements for pending cases and for rebates on previously paid consumer credit licensing fees. All the transitions required the management of complex HR processes, which we completed successfully.

This was a year of which the OFT staff can be proud, and a fitting end to a notable 40 year legacy which is described later in this report. We continued to have a substantial impact in making markets work better for consumers, with the evaluation of our work showing an overall benefit-to-cost ratio of over 10:1. We also delivered a highly skilled and motivated staff into the new organisations, and a portfolio of cases which gave our successor organisations a strong platform on which to build. We wish the CMA, FCA, HMRC, Citizens Advice and Trading Standards every success as they take on the OFT's mission in the future.



**Philip Collins**  
Chairman

## 2 THE BOARD



**Philip Collins**  
Chairman



**Clive Maxwell**  
Chief Executive



**Vivienne Dews**  
Chief Executive



**Sonya Branch**  
Executive Director



**Cavendish Elithorn**  
Executive Director



**Alan Giles**  
Non-Executive  
Director



**Frédéric Jenny**  
Non-Executive  
Director



**Anthony Lea**  
Non-Executive  
Director



**Philip Marsden**  
Non-Executive  
Director



**William Moyes**  
Non-Executive  
Director

The OFT Board was principally responsible for strategic direction, policy priorities and performance monitoring. The executive management team, which was accountable to the Board, was responsible for most operational and enforcement decisions.

## Chairman

**Philip Collins** became Chairman of the Office of Fair Trading on 1 October 2005. He is a solicitor who has practised in the UK and EU competition law field for more than 30 years, initially in London and latterly in Brussels. He was formerly a partner in Lovells where, in 1978, he was the first partner appointed to specialise in competition law. With the subsequent development of the practice, he was made head of the firm's competition and EU law practice. Subsequently, and until 30 September 2005, he was Senior Counsel at Wilmer Cutler Pickering Hale & Dorr LLP, based in Brussels. Philip was one of the founders of the Competition Law Forum established at the British Institute of International and Comparative Law and a member of its Advisory Board from its foundation in 2002 until 2005. He is also a member of the Editorial Board of the European Competition Journal.

## Chief Executives

**Clive Maxwell** became Chief Executive on 1 July 2012 having joined the Board of the OFT as an Executive Director in September 2010. As Executive Director, he led a review of the OFT's enforcement work in 2012 and set up its Enforcement Academy as a result. Before then,

he was Senior Director, Services Sector, from October 2009. Prior to joining the OFT, Clive worked in a wide range of roles for HM Treasury from 1992 to 2009. He led work responding to the financial crisis in 2007 to 2009, and worked on financial markets and regulation there from 2002. He worked in Brussels on secondment to the European Commission from 1994 to 1995, dealing with economic and monetary issues, and on secondment in local government in 1999 to 2000. Clive has represented the UK in numerous international and EU forums, including the European Competition Network and the EU's Financial Services Committee, of which he was Vice-Chairman from 2008 to 2009.

Clive left the OFT on 23 February 2014 to join the Department of Energy and Climate Change as Director-General, Consumers and Households. He was succeeded as Chief Executive by Executive Director, Vivienne Dews.

**Vivienne Dews** became Chief Executive on 24 February 2014, succeeding Clive Maxwell and leading the OFT for its final weeks until closure. She joined the Board of the OFT as an Executive Director in April 2008. In this role, she led the delivery of services to consumers and businesses including credit licensing, anti-money laundering supervision and consumer advice. She was responsible for the OFT's in-house services such as human resources, finance and procurement, facilities management and IT. Latterly she brought together the OFT's preparations for its functions to transfer to successor organisations and oversaw the OFT's markets work.

Vivienne joined the OFT from the Health and Safety Executive, where she was Director of Resources and Planning, and led corporate support and other services. The earlier part of her career was spent mainly at the Home Office. From 1999 to 2001, she was Chief Executive of the Police Information Technology Organisation. She is a member of the Chartered Institute of Public Finance and Accountancy.

## Executive Directors

**Sonya Branch** was appointed as Executive Director (Enforcement and Mergers) in November 2012. Sonya was on secondment to the Department for Environment, Food & Rural Affairs (Defra) in 2011, leading the Triennial Review of two of its biggest agencies and the largest such review by Government to date. Before this, she was a Senior Director in the OFT's Markets and Projects area and led a number of significant competition enforcement cases and market studies, including the recent private healthcare, motor insurance and dentistry market studies.

Sonya joined the OFT in 2007 from global law firm, Clifford Chance LLP, where she was one of the Partners leading its competition practice. She is also a Trustee of the national cancer charity, Target Ovarian Cancer.

Sonya was appointed to the Competition and Markets Authority as Executive Director with responsibility for Enforcement in September 2013.

**Cavendish Elithorn** was appointed as Executive Director (Enforcement and Mergers) on temporary promotion on

6 September 2013, during the period of Sonya Branch's maternity leave.

Cavendish was responsible for a large part of the OFT's front-line delivery work, overseeing competition and consumer enforcement cases, merger reviews, review of Competition Commission remedies and the OFT's pipeline work, which considered ideas for new work. He sat on the Board and the Executive and Policy Committees and was head of the OFT's delivery and policy professions.

Cavendish joined the OFT in 2004 and held a number of roles including Transformation Director, Senior Director Services Sectors, and Senior Director of Policy. He previously worked as a Senior Manager at Capital One Bank (Europe) and for LEK Consulting.

Cavendish left the OFT on 23 February 2014 to join the Department of Transport as Director of Network Rail Sponsorship.

## Non-Executive Directors

**Alan Giles** joined the Board in 2007 and was reappointed for a further three-year term from April 2011. He has many years' experience in retail businesses and is currently a Non-Executive Director of Rentokil Initial plc. He was formerly Chief Executive Officer of HMV Group plc, Managing Director of Waterstone's Booksellers Ltd and Executive Director of WH Smith Group plc. He stepped down as Chairman of Fat Face Group in July 2013. Alan was appointed a Non-Executive Director of the Competition and Markets Authority in July 2013.

**Professor Frédéric Jenny** joined the Board in 2007 and was reappointed for a further two-year term from April 2012. He is a Professor of Economics at ESSEC Business School in Paris. Until August 2012 he was Conseiller en Service Extraordinaire, Cour de Cassation (Member of the French Supreme Court). He is Chairman of the OECD Competition Law and Policy Committee. He was closely involved in the establishment of what is now L'Autorité de la Concurrence (Competition Authority) in France and latterly became its Vice-President, and is internationally recognised for his work in the competition field.

**Anthony Lea** joined the Board in 2008 and was reappointed for a further two-year term from April 2012. He is an economics graduate who has spent most of his career within what is now the Anglo American group, latterly as Finance Director which included responsibility for legal affairs and competition law compliance. He is a Non-Executive Director of various companies in the group including AngloGold Ashanti, De Beers, Englehard Corporation and Terra Industries. He is currently Chairman of the Blackrock Work Mining Trust plc and a Non-Executive Director and Chair of Audit of the British Standards Group. He is also Chair of the Finance Committee and Trustee of the RAF Benevolent Fund and was Chairman of the Emerging Africa Infrastructure Fund.

**Dr Philip Marsden** joined the Board in October 2008 and was reappointed for a further two-year term from April 2012. He is a Canadian and English lawyer who has practised in Toronto,

Tokyo and London, and has also worked as an official in the Canadian Competition Bureau. He has a particular interest in competition and consumer policy and is currently the Director and Senior Research Fellow at the British Institute of International and Comparative Law in London, with responsibility for its Competition Law Forum. He is also Non-Executive Director on the Boards of the Channel Islands Competition and Regulatory Authorities, visiting Professor at the College of Europe, Bruges, a member of the Legal Services Consumer Panel and of Ofwat's Casework Committee, and General Editor of the *European Competition Journal*. Philip was appointed as a Panel Deputy Chair at the CMA from 1 April 2014.

**Dr William Moyes** joined the Board in April 2010 and was reappointed for a further year from April 2013. He is currently Chairman of the General Dental Council, a Non-Executive Director of the Priory Hospital Group, Chairman of SERCO Healthcare's Clinical Governance Committee and a lay member of the Legal Services Board. He also holds two pro bono appointments, namely Chairman of the Governing Body of Heythrop College (part of the University of London) and Trustee of the Catholic Trust for England and Wales.

Previously Bill was Executive Chairman of the Independent Regulator of NHS Foundation Trusts (Monitor) from 2004 to 2010 and Director General of the British Retail Consortium (2000 to 2003). A civil servant from 1974 until 1996, he held a variety of posts in the fast stream and senior civil service. He was a member of the Economic Secretariat

in the Cabinet Office between 1980 and 1983, and Director of Strategy and Performance Management within the Management Executive of the NHS in Scotland from 1990 to 1994. He was seconded to the British Linen Bank (a wholly-owned subsidiary of the Bank of Scotland) in 1994,

establishing its PFI advisory and equity investment team, which focused on large deals, mainly in health. He was also Director of the British Linen Bank (1996) and Head of the Infrastructure Investments Department at the Bank of Scotland (1998 to 2000).

### 3 THE OFFICE OF FAIR TRADING 1973 TO 2014

The Fair Trading Act of 1973 paved the way for the establishment of the OFT, which formally opened its doors on 1 November 1973.

The legislation was adopted to protect consumers from being deceived or treated unfairly by traders and to promote fair and transparent competition across all markets. The Act allowed the Director General of Fair Trading to regulate possible monopolies, to encourage competition, to make Orders and to seek assurances. John Methven was appointed as the OFT's first Director General.<sup>2</sup>

#### Early years

In the early years the OFT's work focused mainly on mergers and studies of markets, and a number of consumer codes were developed that promoted good practice for sectors ranging from footwear distributors to radio and electronic goods retailers. The licencing of credit businesses to protect consumers rapidly joined other functions, as a consequence of the Consumer Credit Act 1974.

#### The evolution of functions and powers

Over the period since 1973 the OFT's functions and powers evolved as a variety of legislation broadened our remit and strengthened our powers in the competition, consumer and credit regimes. Much key legislation came

in relatively late in the OFT's life; the Competition Act 1998 brought a step change in UK civil competition law enforcement powers, the Enterprise Act 2002 added the criminal cartel offence, strengthened our markets powers and further embedded independent decision-making, and we were given the lead in enforcing EU consumer legislation, including criminal powers to deal with unfair commercial practices in 2008. The Consumer Credit Act 2006 gave us a stronger set of regulatory powers and we became a supervisory authority under anti-money laundering legislation in 2007.<sup>3</sup>

The OFT developed and evolved over the years to meet the needs of a changing and often challenging economic and business environment, the new ways in which businesses sell and supply, and how consumers choose and purchase goods and services. We tackled issues of great importance to consumers and built a reputation both in the UK and internationally as a strong and independent force.

The core of our work throughout was to protect consumers and ensure strong competition, using enforcement powers, market studies or reviews, advice and recommendations to government and engagement with business and others to foster market-focused outcomes, and market and merger references to the Competition

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<sup>2</sup> Details of past OFT Director Generals and CEOs can be found in the annexes to this report at [www.gov.uk/oft](http://www.gov.uk/oft).

<sup>3</sup> Details of the OFT's legislative timeline can be found in the annexes to this report at [www.gov.uk/oft](http://www.gov.uk/oft).

Commission (formerly the Monopolies and Mergers Commission) or formal remedies in lieu of such a reference.

### **Breadth of work**

Over the decades the OFT conducted a broad spectrum of work across the economy and adapted its focus to meet the needs of changing markets and business models. An example of this was in the mid-1980s when the explosion in consumer credit led us to develop studies and educational resources to protect consumers. We played a key role in the instigation of the 'Big Bang' in the City of London, conducting a study that led to the removal of restrictive practices and the introduction of greater competition in the financial services sector. More recently as a result of our work, credit card default charges were substantially reduced; and banks restructured and clarified their charges to consumers for current accounts. Our work also led us into new territory: in 2002-03 the OFT investigated BSKYB's conduct between the commencement of the Competition Act in March 2000 and the end of 2001. The OFT concluded that BSKYB was dominant in the markets for wholesale supply of certain premium sports and film channels, but had not breached competition law. The OFT's work touched every aspect of consumers' and businesses' lives in the UK, from everyday concerns such as supermarket prices, gym contracts and the energy market, to high-cost items such as airline tickets and housing, as well as the services upon which the fabric of our society depends such as the professions and banking.

### **New business models**

Throughout the OFT's life we responded to new business models to ensure competition remained strong and that consumers were not exploited or misled. During recent years we placed a particular emphasis on online trading, a medium which radically changed how consumers purchased goods and services and conducted their daily lives, bringing huge benefits but also new risks for consumers. Recent examples of such work were the enforcement action we took to prevent 'drip pricing' of airline tickets in 2009, and this year's principles for children's online and app-based games where we also gave a strong lead internationally.

### **International engagement**

The OFT played a substantial role in leading the agenda and promoting the work of the International Competition Network (ICN) and the Competition Committee of the Organisation for Economic Cooperation and Development, including through senior representation on their respective guiding bodies and active membership of working groups and working parties. Both bodies promote international convergence and best practice and enable agencies to share practical experiences and new ways of working as well as facilitating formal and informal cooperation in casework. The OFT was also active in the development of the European Competition Network since its formation in 2004.

The OFT was a key partner in a pan-European network of public consumer protection bodies introduced with the

Consumer Protection Cooperation Regulation (CPC) No. 2006 in 2004. The network's aim is to facilitate cooperation between public authorities responsible for the enforcement of consumer protection laws in cross-border cases. This helps to ensure the quality and consistency of enforcement of consumer protection laws and the monitoring of the protection of consumers' economic interests, by enabling national authorities to exchange information and cooperate with counterparts in other member states as easily and seamlessly as with other authorities in their own country.

### **Collaboration and partnership**

As with our international work, the OFT's impact was greatest when we collaborated closely with others, another key theme throughout our 40 years. For example, at the OFT's instigation the Competition Commission (CC) conducted a wide range of in-depth, and impactful, second phase investigations into markets and mergers across the economy.

The relationship with the local authority trading standards community was one of our most important and enduring, one that evolved several times over during the OFT's life as we worked to enforce consumer protection law together. We also collaborated closely with the economic regulators who shared concurrent competition and consumer powers, via the Concurrence Working Party (CWP) and in other ways. And as devolution deepened we built relationships with administrations in the nations, and set up a liaison office in Edinburgh to support this

important work. Consumer and business groups were also important partners in much of our work, for example as we sought to raise consumers' awareness of their rights, or businesses' compliance with competition and consumer law.

### **Independence**

Over the decades government has been supportive of the OFT's independence in exercising its functions and powers. As the OFT's responsibilities grew we built up trust and confidence in the developing regime with both businesses and consumers. Whatever their preferred outcome, they have known that our studies and decisions have been based on careful scrutiny of the evidence, outside the influence of politics or vested interests.

### **Public markets**

Independence from government is not the same as isolation from it. As more public services were provided by private or voluntary sector suppliers, a growing element of our work involved making recommendations to government on how such markets could best work for the people that they served, and how to avoid inadvertent introduction of barriers to the development of successful markets when seeking to achieve wider policy objectives. Our impact in public markets increased notably over the OFT's later years and we made recommendations on markets as diverse and significant as dentistry, ICT supply to government, health and further education. Latterly we published a range of advice on promoting competition, protecting

service users and ensuring effective delivery of public services.

### **Competition and consumer empowerment**

Throughout its 40 years the OFT had responsibility for both protecting consumers and promoting competition. These objectives were complementary. A central focus of the past decade was bringing the two closer together, as demonstrated in the OFT's work on personal current accounts in which we used our full range of competition and consumer powers to tackle problems in the market. There is now wide international agreement about the benefits of using competition and consumer powers as complementary tools, ensuring that consumers are both empowered and protected, and serving to drive competition between competing businesses.

### **Law and economics**

The OFT was at the forefront of bringing the practical application of economics into the heart of its work, using both classical economic analysis and, more recently, behavioural economics. In addition to building the economic aspects of competition cases, and ensuring a sound fit with the legal framework and arguments, economics proved to be valuable in identifying theories of harm that underpinned the bringing of enforcement action to protect consumers.

### **Investing in people**

As the economy and our regime evolved across four decades we developed the organisation and its

people. As a central government department, the OFT started life staffed by experienced and talented civil servants with varied backgrounds and experience in policy and operations. As the years passed we recruited more specialist staff with diverse backgrounds and a variety of professional qualifications to ensure we were capable of delivering the best results for consumers. This included competition lawyers and economists, investigation and intelligence specialists, financial analysts and statisticians and IT professionals as well as communications professionals working on public awareness and education campaigns. We consistently invested in learning and development and developed internal programmes, exemplified by our Know How series, to share best practice and integrate the skills and experience of our staff.

Throughout our 40 years our staff – their commitment to their work and their passion for getting the right outcome for consumers and the economy – was our greatest strength. They are a strength we pass on to our successor organisations as they take forward our work of protecting consumers and ensuring strong competition in the UK economy.

### **Learning from experience**

Like most agencies around the world, from time to time the OFT suffered setbacks where studies that we carried out, or cases that we brought, did not ultimately prove successful in delivering the outcomes that we sought based on the evidence and analysis. In some cases this was due to failures in our preparatory work,

in others it was due to differences in appreciation of the issues of substance involved. Throughout the OFT's life, we sought to learn from our experiences, favourable and unfavourable, adapting or changing our processes and systems in order to ensure that our work stood up to scrutiny and delivered the anticipated outcomes.

The OFT contributed strongly to the discussion and development of the consumer, competition and credit regimes over the last 40 years. We are confident that the organisations now charged with delivering the OFT's former responsibilities will continue its mission to make markets work well, building on the best of the OFT.

## 4 SUPPORTING TRANSITION

The context to the OFT's work on transition has been the Government's wide-ranging reforms to the consumer, competition and credit regimes which started in 2011 and were completed by the end of March 2014. The reforms were intended to provide stronger protection for consumers, to hold businesses to account more effectively for their behaviour and to promote competition more strongly for the benefit of the economy and consumers.

From 1 April 2012 a **Citizens Advice** consumer service took over from the OFT-run Consumer Direct. This contact centre service provided free, practical advice on a range of consumer matters, including information on consumer rights and practical guidance on individual problems and how to gain redress. Consumer Direct also acted as the main contact point for Trading Standards Services and where appropriate passed on individual complaints for investigation.

On 1 April 2013, **Trading Standards Services** (TSS) took on the lead role in enforcing consumer protection law. At the same time, the **Trading Standards Institute** (TSI) began operating a successor scheme to the OFT's Consumer Codes Approval Scheme. The aim of the CCAS was to bolster consumer protection and improve customer service standards by the approval and promotion of codes of practice, setting out the principles of effective customer service and the recognition of trusted traders. The TSI also took on the lead

role in producing business guidance relating to consumer law, including the law concerning sales of goods and distance selling, and Citizens Advice took over the lead role in delivering consumer education.

Many of the OFT's responsibilities and powers were taken over by the **CMA**. The CMA was established under the Enterprise and Regulatory Reform Act 2013, came into being in shadow form in October 2013 and took on its full powers from 1 April 2014.

Also on 1 April 2014, the **FCA**, which regulates UK financial services, became the regulator for the consumer credit industry. The FCA will operate a new, enhanced regulatory regime with stronger powers to deal with consumer credit problems. Anti-money laundering powers and responsibilities passed to the FCA in respect of consumer credit financial institutions, and to **HMRC**, in respect of estate agents. From the same date, the OFT's powers to prohibit or warn estate agents, and to authorise estate agents redress schemes, passed to **Powys County Council**.

The OFT played an essential role in supporting the transition, not just in the establishment of the CMA but also helping to create a new credit regime and in handing over the OFT's functions to the successor organisations. OFT staff spent on average around 15 per cent of their time in 2013-14 working on transition issues; for most senior staff the time spent on this work was much higher.

## **Transition of OFT staff to the new regimes**

Throughout every stage of transition staff were provided with regular communication, and support with CV writing, interview techniques and career development. The background of transition presented a challenge for leadership in continuing to deliver while at the same time as preparing for major change. The overall staff engagement score from the 2013 staff engagement survey was 61 per cent, an increase of one per cent from 2012, suggesting that motivation was maintained during this time. Responses to several specific questions on leadership and managing change improved by between three and seven percentage points compared with 2012.

During the year 340 members of OFT permanent staff moved to CMA, some transferred between October 2013 and March 2014 but the majority transferred on 1 April 2014. 105 permanent OFT staff moved to the FCA, 30 on TUPE terms and the remainder on FCA terms, and four staff transferred from the OFT to the HMRC. Forty five permanent OFT staff accepted voluntary redundancy/exit terms and ten left on compulsory redundancy terms. These numbers include staff who were absent from the office, for example on maternity leave or career break or on loan to other organisations.

## **Transition to the CMA**

From 1 April 2014 the CMA took over as the main successor to both the OFT and the CC, taking on

competition powers from both organisations and certain consumer powers from the OFT. The CMA's remit is to promote competition, both within and outside the UK, for the benefit of consumers, and its responsibilities include competition and consumer law enforcement, market studies and investigations, and merger control.

During 2013-14 OFT staff worked on a number of transition projects for the CMA, contributing to workstreams on human resources (HR), accommodation, governance and structure, strategy, ICT, knowledge and information management, policy, guidance, finance, sector regulation and concurrency, and communications.

The OFT worked closely with the CC, the Department for Business Innovation & Skills (BIS) and the CMA's leadership team to enable the CMA to work effectively from its first day.

## **Human Resources**

In February 2013 the Human Resources workstream started their work on the transition process which included large scale job-matching and recruitment and redundancy processes. Job-matching resulted in 57 per cent of OFT staff taking up new roles in the CMA and 34 per cent of the OFT Senior Civil Service staff being recruited into new CMA roles through open competition.

The workstream also designed and developed a new HR infrastructure and functions for the CMA.

## **Governance and structure**

The CMA Governance workstream defined the arrangements and decision-making mechanisms required to establish and run an effective and successful CMA. This included agreeing the shape of the Board, Board Rules of Procedure and the Conflicts of Interest Policy and committee structures.

The structure workstream developed an optimal operating model and an organisational structure and sub-structure for the new organisation as well as practical working processes and methods.

## **Strategy**

Working closely with colleagues from the CC and BIS, the OFT supported the CMA in delivering a range of strategic documents setting out CMA's Mission, Vision, Strategy and Values. The CMA's Annual Plan 2014-15 was launched on 1 April 2014. These core documents were developed with significant external and internal stakeholder engagement and consultation.

## **Accommodation**

OFT and CC staff, led by BIS, helped create a new working environment for the CMA at Victoria House, Southampton Row, London. This involved close collaboration between the Accommodation and ICT workstreams to create an environment which would support stronger integrated working.

## **ICT**

The ICT workstream built a new and secure IT service structure for CMA users, constructing networks and infrastructure which support local, national and international collaboration and integration. The work included disaster recovery and business continuity arrangements, the migration of data and records and a new enterprise resource planning (ERP) platform for finance, HR and procurement.

The OFT also made a significant financial investment and contribution to the development, implementation and test roll-out of the CMA's new Electronic Document Records Management system.

## **Knowledge and information management**

The knowledge and information management workstream identified information to be transferred to the CMA. Relevant corporate knowledge was captured and transferred and new Information Assurance processes were developed for the CMA. This included the CMA's adoption of the new Government Security Classifications.

## **Policy**

The OFT supported the CC in identifying and addressing policy issues to inform the way in which the CMA does its work. Issues examined included how merger control process could be made more efficient as a consequence of changes to the legal framework. Outputs from this workstream were reflected in the development of the CMA's internal and external guidance.

## Guidance

Members of the OFT's policy team, working closely with the CC, the CMA leadership and a group with specialist expertise in the two organisations, developed the new guidance documents which had to be in place by 1 April 2014. This guidance related to changes introduced by the ERR Act 2013 or to changes which arose as a result of the unity of the new organisation. The new guidance covered the following areas:

- Mergers Procedure (covering Phases 1 and 2)
- Markets Procedure (covering Phases 1 and 2)
- Statement of Policy on Administrative Penalties (in Mergers, Markets and Competition Act cases)
- The CMA's Principles on Transparency
- Consumer cases
- Competition Act procedure/CMA CA98 Rules
- The approach to prosecution of the Criminal Cartel Offence
- Competition Act concurrency
- Remedies
- The CMA's approach in adopting existing OFT/CC guidance
- Cost Recovery in telecom price control references.

The OFT was particularly grateful for the support received from 12 secondees from a range of private law practices who helped to deliver this work and we record here our

thanks, both to the individuals and their firms.

## Finance

The OFT's finance team supported the CMA's leadership in developing the CMA's 2014-15 business planning, risk management, banking arrangements, and contractual arrangements. In the 2013 Spending Round the Treasury awarded CMA a Resource Departmental Expenditure Limit (Resource DEL) of £51.2m and a Capital Budget of £1m for the financial year 2014-15, the CMA's first year of operation. The Resource DEL includes a ring-fenced budget of £5.1m to cover depreciation and specific policy initiatives and places a limit of £18.6m (including £1.1m of depreciation) on administration expenditure. In addition BIS has agreed to provide CMA with top-up funding of £3m in 2014-15. In the Autumn Statement 2013 the Chancellor of the Exchequer announced that the CMA's resource budget would be increased by £12m in 2014-15 to allow the CMA to accelerate its work relating to cartels and regulated markets. The CMA will therefore commence its first year of operation with a Resource Budget of £66.2m with £5.1m ring-fenced plus a Capital Budget of £1m.

## Sector regulation and concurrency

The OFT worked closely with the CMA leadership to establish effective working relationships between the CMA and a range of sector regulators with concurrent competition and consumer enforcement powers.

A Statement of Intent was developed by the CMA and UK Competition Network (UKCN), setting out how sector regulator organisations will work together to ensure the constant effective use of competition powers across all sectors.

### **Communications**

The OFT's communication team, working closely with the CC's team, supported the CMA's leadership as it engaged with the media and stakeholders through a range of interviews, speeches and events. It also led the development of internal communications channels for the CMA to ensure its future staff were informed and engaged with the development of the new organisation.

The OFT's communications team also supported the development of a new web presence for the CMA: [gov.uk/cma](http://gov.uk/cma). It was established with content transitioned from the OFT and CC websites, and new functionality was developed to meet users' needs. All pending cases and their associated documents were transitioned to [gov.uk/cma](http://gov.uk/cma).

### **Pending cases and projects**

The OFT transitioned one market study, 11 competition enforcement cases and two consumer enforcement cases to the CMA. We handed over our responsibilities to the CMA to deliver its new responsibilities from 1 April 2014.

## **Transition to the FCA**

### **Consumer Credit**

The Consumer Credit Act 2006 (CCA) gave the OFT a stronger set of regulatory powers in a market relied upon by increasing numbers of vulnerable borrowers. This was followed by the Financial Services Act 2012 which provided for the transfer of the regulation of consumer credit to the Financial Conduct Authority (FCA), including the responsibilities for credit licensing and enforcement. The OFT supported the FCA and worked closely with BIS, HMT and businesses to design the new regime and to ensure that knowledge and expertise, people, enforcement cases, data and records were transitioned effectively. The OFT fully supported the FCA's programme team to ensure that appropriate systems and processes were in place for the FCA to receive and continue with the consumer credit work.

The OFT ensured that as much casework as possible was completed; only handing over to the FCA those cases we were unable to conclude. For those cases that were handed over, we shared information to ensure OFT-initiated enforcement activity could be concluded by the FCA, thus ensuring that transition would not result in a clean slate for those firms engaged in malpractice.

We took steps to make sure that OFT activities were successfully closed down, ensuring the closing of the

CCA licensing function aligned fully with the commencement of the FCA's authorisation process. All relevant electronic and paper data was migrated, supporting the continued effective enforcement of 210 pending cases and sharing the OFT's approach to intelligence gathering and analysis to enable the FCA to identify and deliver its enforcement priorities from 1 April.

As part of a fair and proportionate transfer of consumer credit regulation, the government consulted the OFT and FCA and decided on a programme of rebates to consumer credit licence holders, reflecting the closure of the OFT regime. The FCA was responsible for calculating the precise rebate due to individual eligible firms and reimbursement.

The OFT also took steps to ensure that staff were ready for the transfer, utilising a network of change champions, in order that people arrived at the FCA with a good understanding of their new roles; were given an induction, orientation and training plan; and had access to the information needed to carry out their roles as from 1 April 2014.

## **Transitions to other organisations**

### **Anti-money laundering**

Under orders made under the Financial Services and Markets Act 2000 (as amended by the Financial

Services and Markets Act 2012) and the Public Bodies Act 2011, the OFT's anti-money laundering powers and responsibilities passed to the FCA and to HMRC. The FCA has responsibility for consumer credit financial institutions and HMRC has responsibility for businesses that carry out estate agency work.

Anti-money laundering transition to the FCA was included within the broader consumer credit transfer. We worked closely with HMRC to transfer estate agency anti-money laundering data and cases, including the register of estate agents. We worked closely with HMRC to ensure that businesses understood what the change in anti-money laundering supervision would mean for them.

### **Regulation of estate agents**

On 1 April 2014, the OFT's powers to prohibit or warn estate agents, and to authorise estate agents redress schemes, passed to Powys County Council.

### **Regulations of estate agency**

To support the smooth transfer of estate agency functions, the OFT worked closely with BIS to ensure that the enabling legislation was in place and also seconded two officers from Powys into the OFT from January to March 2014 so that we could pass on our enforcement experience and casework effectively to Powys as part of a structured, managed process.

## 5 ENFORCEMENT

In the last year of the OFT, high impact enforcement was a key part of our approach to making markets work well for consumers. Despite our focus on transition, we continued to prioritise cases that had a strategic significance, a deterrence effect and precedent-setting value, to ensure that our enforcement work was powerful, targeted and effective. We enhanced our capability in intelligence gathering, investigation and prosecution functions, learning lessons from previous cases and strengthening our processes as a result.

Our work also took on a more focused and forensic approach under the guidance of experienced senior management and we also continued to recruit staff with specialist skills to support our enforcement functions, as well as promoting experienced OFT staff where appropriate.

### Competition enforcement

Our competition enforcement work resulted in some significant outcomes this year. We pursued a number of investigations under the Enterprise Act 2002 and civil Competition Act 1998 powers looking into suspected cartel activity or other anti-competitive conduct across a number of sectors.

We issued infringement decisions in four cases this year, two concerning the mobility scooters market, one regarding the supply of security alarms to retirement properties and another regarding the supply of prescription medicines to care homes.

We accepted commitments in our hotel online booking investigation, closed our Bunker Fuel investigation with a no grounds for action decision and closed three cases on administrative priority grounds.

#### Case Study 1: Care Home Medicine Cartel

##### Annual Plan Theme: Protecting vulnerable consumers and pricing used as a barrier to choice and fair competition

In March 2014 the OFT issued an infringement decision and imposed a penalty of £370,000 against three companies after they were found to have breached competition law. Our action gave a clear message that market-sharing is unacceptable and suitable action will be taken to end the practice.

The case followed an OFT investigation into Quantum Pharmaceutical, Tomms Pharmacy and Lloyd Pharmacy about a market sharing agreement over the supply of prescription medicines to care homes between May 2011 and November 2011. The case was brought to the OFT's attention by Lloyds under the OFT's leniency policy.

Our enforcement work continued to prioritise cases that made a real difference for consumers and the economy as a whole. Our work relating to the mobility aids sector resulted in both consumer and Competition Act enforcement action

and is a prime example of our commitment to protect vulnerable consumers. Pricing practices also featured in a number of cases, as did new business models, particularly those involving the use of the internet.

**Case Study 2: Online Hotel Booking**

**Annual Plan Theme: Novel and developing markets and business practices**

In January 2014 the OFT accepted formal commitments from two of the UK’s largest online travel agents, Booking.com and Expedia, together with InterContinental Hotels Group (IHG). Our action will enable all online travel agents (OTAs) and hotels that deal with these businesses to offer discounts on room-only accommodation, which will benefit travellers.

In a rapidly evolving industry it is important that the market continues to work in consumers’ interests and that the benefits of innovative and efficient business models are passed on to consumers. The outcome in this case helps to ensure this happens.

The OFT investigation centred on competition concerns that Booking.com and Expedia had entered into separate agreements with IHG which restricted other OTAs’ ability to discount the rates offered to consumers for room-only hotel bookings. We found that this practice could limit price competition, increase barriers to entry and prevent other OTAs from offering discounts to consumers and potentially increase their market share.

**Case Study 3: Price Parity – Amazon**

**Annual Plan Theme: Novel and developing markets and business practices**

In November 2013 the OFT closed its investigation into Amazon’s price parity policy. The practice restricted third party sellers trading on Amazon’s Marketplace platform from offering products at lower prices on any other online sales channel. The closure decision was taken after the OFT was satisfied that the company had ended this practice across the European Union.

Amazon confirmed to the OFT that it had made sellers aware the price parity policy had ended and that contractual conditions would change for all sellers, resulting in a more competitive and open marketplace.

The OFT had opened a formal investigation in 2012 to assess Amazon’s price parity policy following numerous complaints.

This year, for the first time, we used collective decision-making in Competition Act cases. Case Decision Groups (CDGs) made up of senior OFT staff were appointed to cover five cases, of which three resulted in infringement decisions. CDGs were introduced in 2012 to increase the robustness of our Competition Act 1998 decision-making. One of the challenges of this model is the time commitment required of CDG members. Our learning from this

new form of decision-making will be taken forward by the CMA.

Our legacy to the CMA was a strong portfolio of competition enforcement cases, both civil and criminal. We transferred seven civil competition enforcement cases, including a number opened in 2013, and four criminal investigations under the Enterprise Act 2002 (one of which resulted in an individual being charged with the criminal cartel offence in January 2014).

#### **Case Study 4: Mobility Scooters**

##### **Annual Plan Theme: Vulnerable consumers and pricing used as a barrier to fair choice and competition**

In 2013-14 the OFT announced that two leading manufacturers of mobility scooters, Pride Mobility Products Ltd and Roma Medical Aids Ltd, together with some of their retailers, had each separately breached competition law.

The OFT found that Roma had entered into arrangements with seven UK-wide online retailers which prevented them from selling Roma-branded scooters online and from advertising their prices online. In a separate decision it also found that Pride had entered into arrangements with eight of its UK-wide online retailers which prevented them from advertising online prices below Pride's Recommended Retail Price (RRP) for certain models.

In both cases, the OFT found that these practices limited consumers' ability to compare prices and get value for money. These practices were found to be anti-competitive and steps were taken to create a more open and fair marketplace for consumers.

Both Roma and Pride cooperated fully throughout the investigations and the OFT brought these infringements to an end.

The investigations arose from an OFT market study in 2011 which found that many vulnerable consumers were not getting a fair deal when buying mobility aids. Following the study, the OFT took significant steps to improve how the mobility aids market works by ensuring that customers were aware of their rights and that all manufacturers and retailers met their legal obligations.

**Protecting consumers from unfair commercial practices and unfair contract terms**

In 2013-14 we prioritised our work on unfair contract terms that restrict consumers’ ability to terminate a contract if their financial circumstances change. We also maintained a focus on the transparent advertising of prices, for example in the home

furnishings sector. Over the course of the year we secured four consumer enforcement outcomes through undertakings and successfully concluded seven other consumer investigations and 20 enquiries.

Some of our consumer law enforcement cases emerged directly from market studies or reviews, where we identified poor practice that

**Case Study 5: Property Sales Fraud Convictions**  
**Annual Plan Theme: Protecting consumers and pricing used as a barrier to fair choice and competition**

In July 2013, three individuals were sentenced at Wolverhampton Crown Court for fraudulent property sales. The sentences followed a criminal investigation and prosecution by the OFT with assistance from the West Midlands Police and Connells Estate Agency.

The investigation and prosecutions concerned the selling of repossessed houses marketed by Connells to people with an undeclared personal relationship to the individual agents. The houses were later sold on at a profit. Two of the three individuals who were sentenced worked at Connells’ West Bromwich office. Sentencing the individuals, the Judge said: ‘The bedrock principle of the estate agent profession is a safeguard that there should not be a conflict of interest and you have all breached that.’

**Case Study 6: Furniture and Carpet Retailers Pricing Practices**  
**Annual Plan Theme: Protecting consumers and pricing used as a barrier to fair choice and competition**

In 2013-14, the OFT was able to secure important changes in the pricing practices of a number of furniture and carpet retailers. Following our investigation consumers are now able to trust that price comparisons are fair and meaningful and that advertised savings are genuine. The retailers each confirmed their commitment to using genuine prices and made changes to their reference pricing practices.

Reference prices are used by retailers across their sector to advertise a bargain to shoppers, for example by comparing a lower current price against a higher past price, such as, ‘Sale, was £800, now half price £400.

needed to be tackled. Our study that examined Quick House Sales led to us securing assurances to change behaviour from four providers. A sector study on energy efficiency resulted in Weatherseal improving its methods of selling and the handling of complaints and enquiries.

Other completed civil consumer law cases included our investigation into the unauthorised sale of tickets to the London Olympics, which resulted in final orders against Euroteam AS, Uncus AS, Ticket and Travel AS.

We also concluded our formal industry-wide consumer law investigation into retirement home exit fees, securing voluntary undertakings from a number of retirement home businesses. In a sector where residents can be vulnerable older people, we also issued a decision finding that four suppliers of certain alarm and access control systems into retirement properties had breached competition

law by variously engaging in a number of collusive tendering arrangements. We found that, when bidding for these contracts, one of the companies would try to win by sharing its proposal with one of the other companies with the aim that they would submit higher bids. We identified a minimum of 65 tenders that were affected by the collusive tendering arrangements with a combined value of approximately £1.4m. The collusive tendering arrangements were first brought to the OFT's attention by one of the companies which benefited from immunity from financial penalties under the OFT's leniency policy. The OFT imposed penalties on the other companies, totalling £53,410.

Following this we launched a market study into property management services, which also included the management of retirement home properties.

### **Case study 7: Quick House Sale providers**

#### **Annual Plan Theme: Protecting vulnerable consumers and pricing used as a barrier to fair choice and competition**

In December 2013 the OFT secured undertakings from four national quick house sale companies to improve their business practices. Our work will provide greater clarity and confidence to consumers when considering the benefits and issues of quick house sale providers.

Box MX Limited, BTA Properties Limited, Property Rescue Limited and Gateway Homes UK Limited worked constructively with the OFT throughout the investigation. The action resulted from an OFT market study in 2012 which identified some practices that might not comply with the law and also fell short of the standards we expected of businesses in this sector. These included giving misleading initial valuations, late reductions of the offer price and operating unclear fee structures.

The CMA, working together with enforcement partners, plans to continue to monitor the sector to ensure it works fairly and transparently for both consumers and businesses.

### **Case Study 8: Home Improvement products – Weatherseal**

#### **Annual Plan Theme: Protecting vulnerable consumers and consumers challenged by the adverse economic climate**

In January 2014, the OFT received assurances from national double glazing company Weatherseal Home Improvements Ltd that it would improve its business activities. This followed an investigation into methods of selling energy efficiency and home improvement products. Weatherseal cooperated fully with the investigation and the changes made will protect consumers' interests when purchasing home improvements.

The OFT had raised concerns with Weatherseal about the conduct of some of its self-employed sales agents when selling to people in their home. Some consumers complained that they felt pressured to make a purchase and issues were also raised about the training provided to sales agents and the handling of customer complaints and enquiries.

This action was part of a wider drive by the OFT and its partners to raise standards across the energy efficiency sector, where products such as double glazing can offer major benefits to consumers. It is important that consumers are able to make informed purchases with confidence, and businesses must make sure that anyone acting on their behalf or in their name is properly trained and complies with the law.

## 6 CONSUMER CREDIT AND ANTI-MONEY LAUNDERING REGULATION

In 2013-14 the OFT continued to regulate consumer credit markets, intervening decisively using all the tools available to us, including the power to suspend a consumer credit licence where necessary. This power strengthened the OFT's enforcement toolkit in cases where there was an urgent need to protect consumers from harm. It allowed the OFT to put a stop to the licensable activities of businesses that otherwise would be able to operate until the end of an often lengthy appeal process.

### Licensing and enforcement action

Over the course of the year we took enforcement action against a number of businesses providing consumer credit products and services, revoking ten licences, suspending four and imposing requirements on 11 licensed businesses. We also scrutinised and determined

applications from 19,243 businesses that wished either to enter the consumer credit market or to vary their existing licences. We issued 36 formal notices at the 'gateway stage', which included applications for a licence, renewal or variation, refusing 25 firms and individual licences to operate. 8,426 new licences were issued and we processed 6,192 maintenance payments.

Of the adverse determinations (decisions to reject applications and revoke licences) which took effect this year, 13 were following appeals heard by an independent tribunal. We maintained our record of success with appeals. Since 2008 no appeal against an OFT Consumer Credit determination has been upheld, with firms either withdrawing their appeal, or losing after a strikeout or full hearing.

### Case Study 9: Credit Licence Suspensions

#### Annual Plan Theme: Protecting vulnerable consumers and consumers challenged by the adverse economic climate

This year the OFT used its new power to suspend a licence with immediate effect on four occasions. The power can be used where it appears urgently necessary to do so for the protection of consumers. Suspensions are effective for a 12-month period unless the OFT subsequently gave notice that it was minded to revoke the licence, in which case the suspension remained in force until that process concluded.

One suspended licensee, Staffordshire-based Donegal Finance Limited (DFL), surrendered its consumer credit licence following OFT's action. This licence was suspended because, among other reasons, DFL failed to disclose relevant information on its licence application.

## Protecting consumers in the credit market

Our focus remained on consumers who were particularly vulnerable in times of economic difficulty. As a result of our actions following up the findings of our payday lending compliance review published in early 2013, 20 of the 50 leading lenders chose to leave the payday market. In addition, we revoked the consumer credit licences of a further three payday lenders and another four surrendered their licences, which meant they could carry out no consumer credit activities. We also passed to the FCA active investigations open into four payday lenders and detailed evidence on another 15.

Alongside formal enforcement action we continued to take other initiatives to deal with consumer detriment. On 1 November 2013 the OFT wrote to 50 banks and building societies asking them to confirm that they had fully discharged their obligations to provide post-contract information under the Consumer Credit Act 1974. The OFT took this action in light of previous similar issues relating to the Act involving some other banks. On 20 March 2014 the OFT announced that 17 banks and building societies had agreed to repay over an estimated £149m in interest and charges to around 497,000 customers.

### Case study 10: Payday loans

#### Annual Plan Theme: Protecting vulnerable consumers and consumers challenged by the adverse economic climate

Following publication of its Compliance Review in March 2013, the OFT undertook a range of work to address the significant non-compliance it uncovered. This fell into three main strands of activity:

- Continuing investigation and compliance work, including giving 50 leading lenders 12 weeks to demonstrate, with independent evidence, that they had addressed the problems we had identified and complied fully with their legal obligations. This work led to major improvements by many of those lenders who decided to remain in the market. Twenty of the 50 exited the market. In addition to the 50 leading lenders, seven others surrendered their licences or had them revoked by the OFT.
- In June 2013, the OFT referred the payday lending market to the CC for a full investigation as we suspected that features of the market prevented, restricted or distorted competition. Among the features we considered as causing concern were the lack of cost transparency, customer price insensitivity, barriers to switching and market concentration.
- A key aspect of our work on payday loans was to contribute to the FCA's development of its rules for the sector in preparation for taking over consumer credit regulation from the OFT. This involved sharing understanding of the market gained through our compliance review and associated work, in particular some of its key features such as the use of continuous payment authorities and debt collection practices.

## Anti-money laundering supervision

The OFT was the anti-money laundering supervisor for estate agents and certain types of credit businesses. Work under the Money Laundering Regulations 2007 aims to detect, deter and disrupt money laundering. Supervised businesses were required to satisfy us that they had in place adequate processes and systems to counter the threat of money laundering. Estate agents were also required to register with us.

An appeal by former online payday lender, MCO Capital Limited, against the OFT decision to fine it £544,505 was dismissed by the First-tier Tribunal in a unanimous decision. The OFT imposed the penalty in August 2012 for breaching the Money Laundering Regulations, including failing to verify adequately the identities of loan applicants.

In relation to estate agents, we focused increasingly on business education as we approached the

### Case Study 11: Estate Agency businesses

#### Annual Plan Theme: Protecting vulnerable consumers and consumers challenged by the adverse economic climate

On 28 March 2014 the OFT fined three estate agents, based in London, Northamptonshire and Cardiff, a total of £246,665 for breaching money laundering regulations.

The failures in all three cases were significant and widespread and included:

- Failures to apply adequate customer due diligence measures when carrying out estate agency work.
- Failures to conduct ongoing monitoring of business relationships.
- Failures to establish and maintain appropriate policies and procedures on adequate record-keeping, internal controls or risk assessments.
- Failures to train relevant employees in how to recognise and deal with transactions and other activities which may be related to money laundering and terrorist financing.

Kate Pitt, OFT Deputy Director of Anti-Money Laundering, said: 'The Money Laundering Regulations are designed to detect, deter and disrupt financial crime. We fined these three estate agents as they were failing to comply fully with the regulations, and so were more vulnerable to money laundering or terrorist financing activity.'

transition of our powers to the HMRC. In partnership with the National Crime Agency we delivered 12 workshops and presentations to estate agency businesses at various locations around the UK with the aim of increasing awareness of the anti-money laundering regime. One outcome was that the number of estate agency businesses registered to use the suspicious activity reporting system increased by almost 98 on the previous year.

We carried out 76 inspections of registered businesses to assess their compliance with the Regulations,

resulting in the issue of 35 warning letters. We carried out 15 re-visits and five desktop inspections to follow up on non-compliance issues identified in previous visits.

We continued our work to ensure compliance with the regime's registration requirements. We issued 227 warning letters to businesses appearing to carry out estate agency work without being registered with the OFT. This resulted in 171 registrations and we imposed fines totalling £13,800 on six businesses for trading while not registered.

## 7 MERGERS AND MARKETS

A key part of the OFT's mission over the years has been to investigate markets that did not appear to be meeting the needs of consumers. Our studies involved an analysis of a particular market, or practices, across a range of goods and services. The aim was to identify and address any aspects of market failure, from competition issues to consumer detriment and the effect of government regulations.

Mergers work also formed a key part of our delivery. We reviewed information relating to a merger or acquisition and if we believed that it

might lead to a substantial lessening of competition within any market for goods or services in the UK this would be referred to the CC for further investigation.

### MERGERS

This year eight merger references were made to the CC. The number of references continued to reflect the difficult economic environment, with mergers of close rivals which are struggling to stay afloat more commonplace, and such mergers more likely to raise competition problems.

#### **Case study 12: Merger of Diageo and United Spirits**

##### **Annual Plan Theme: Pricing used as a barrier to fair choice and competition**

In November 2013, the OFT suspended the decision to refer this merger to the CC following Diageo's offer to sell the bulk of the Whyte & Mackay business with the exception of two malt distilleries. Our action in this case ensures that competition and pricing in this market remain fair and open.

Diageo and United Spirits are both suppliers of spirits in the UK and across the world. In the UK, United Spirits' subsidiary, Whyte & Mackay, is primarily active in the supply of whisky but also owns and distributes other spirits, including vodka. The parties are major suppliers of bottled blended whisky to retailers with Whyte & Mackay also being an important supplier of own-label blended whisky.

A number of retailers expressed concerns to the OFT about possible price rises for bottled blended whisky sold in the UK as a result of the merger. After analysing a large amount of evidence, including data on consumer switching between brands, economic modelling and internal documents, the OFT found the merger might lead to a substantial lessening of competition in the supply of blended whisky to retailers. A monitoring trustee was put in place to ensure compliance with undertakings while Diageo found a suitable purchaser for the divested business.

In relation to merger cases, we cleared a pathology joint venture between two foundation trusts and a private provider. We also provided informal advice to a number of NHS organisations regarding the implications for competition of merger proposals, and to merging parties through pre-notification discussions. This prepared them for the merger review process, leading to a smoother review process overall.

In 2013 the OFT referred the proposed merger of two NHS foundation trusts located in Poole, Bournemouth and Christchurch to the CC for an in-depth investigation. The evidence before the OFT was that the merger would combine two trusts that competed closely for GP referrals for many specialties – notably rheumatology, rehabilitation, general medicine, general surgery, geriatric medicine, dermatology, clinical haematology, oral and maxillofacial surgery,

cardiology and palliative medicine. The OFT considered the merger might reduce the hospitals’ incentives to continue to enhance the quality of those services in order to compete successfully.

The CC subsequently blocked the merger, concluding there was not enough evidence that the proposed merger would result in overall benefits for local patients.

More widely, the OFT engaged with the health sector through events and publications, explaining our role in the consideration of mergers involving NHS foundation trusts. In October 2013 the OFT, the CC and Monitor published a short joint statement clarifying working methods in relation to mergers between public hospitals, and making clear that the interests of patients remained paramount when reviewing such mergers.

**Case study 13: Local World clearance**

**Annual Plan Theme: Closer working with the economic regulators**

In June 2013 we cleared the joint venture which brought together Northcliffe Media Ltd and Iliffe News & Media Ltd, the local and regional newspaper businesses previously owned by Daily Mail & General Holdings and Yattendon (respectively).

The OFT concluded that the novel deal did not raise any competition concerns and as a result of our investigation, with input from Ofcom, we were able to provide a clear steer to businesses that may be considering future transactions in the local newspaper market.

### **Case Study 14: Pathology joint venture**

#### **Annual Plan Themes: Public markets and closer working with other regulators**

In November 2013 we gave merger control clearance to a joint venture between University College London Hospitals NHS Foundation Trust, Royal Free London NHS Foundation Trust and The Doctors Laboratory Limited.

This was the first pathology joint venture notified to us. The OFT considered the impact of the joint venture on the supply of routine pathology tests to GPs and community service providers. We further considered the provision of routine, urgent and non-urgent pathology tests and specialist pathology tests to NHS hospitals. The evidence showed that competition between the parties was limited and incentives to ensure high-quality services for GPs, commissioners, hospitals, and ultimately patients, would still be in place after the merger.

# MARKETS

This year we conducted studies across major sectors of the economy to determine if they worked well for consumers. Our work included examinations of defined contribution workplace pensions, SME banking, the energy market and the emerging quick house sales market.

The OFT and the FCA worked closely to conduct a market study on competition in SME banking and on March 11 the OFT published an update including an announcement that the CMA will complete the study as part of a wider examination of competition in retail banking. The FCA will continue to work closely with the CMA on the study.

Our work on retail banking continued this year when we advised the Chancellor of the Exchequer on the likely impact of State Aid divestments.

We also gathered evidence and undertook analysis for HMRC on the forthcoming regulation of payment systems, recommending additional

**Case Study 15: Defined contribution workplace pensions**  
**Annual Plan Theme: Protecting vulnerable consumers and consumers challenged by the adverse economic climate and closer working with economic regulators**

In September 2013 we published the findings of our market study into the defined contribution workplace pension market, which led to the Government, industry and regulators making a range of recommended changes. Our work will result in an improved and more regulated and open market serving both consumers and businesses.

The recommended changes are as follows:

- The Association of British Insurers (ABI) and its members agreed to an immediate audit of old or high charging contract and bundled-trust schemes, aimed at ensuring savers are getting value for money.
- The ABI also agreed to establish independent governance committees to address our concerns about lack of independent scrutiny of contract-based schemes. The key elements of this governance solution were written into the FCA's rules.
- The Pensions Regulator is pursuing a suite of interventions aimed at ensuring smaller trust-based schemes are delivering value for money.
- The disclosure of pension charges in a transparent and comparable format will be mandatory so that employers' initial choice of scheme is made easier.
- Schemes that contain inbuilt adviser commissions or that penalise members with higher charges when they stop contributing will be banned from being used for auto-enrolment.

powers for the new regulator (subsequently confirmed as the FCA) to improve the prospects for competition and innovation in this important sector.

## Public markets

We continued to deliver on our Annual Plan commitment to use our public and private market experience to support policy makers, regulators, commissioners and providers in the development of competitive public service markets, focusing on areas where other regulators or oversight organisations may have been less active.

In July 2013 we launched a Call for Information (CFI) into the supply of

ICT services to the public sector. The aim was to understand more clearly the ICT products and services involved, who supplied them, the structure and operation of these important markets and the degree of competition between suppliers.

We identified a number of areas of concern and, as a result, launched a market study in October 2013. We subsequently found that competition could work better in the purchase and supply of ICT products and services to the public sector, and recommended that the public sector address these concerns by improving the way it procures and manages contracts with suppliers, and that, in turn, suppliers be more transparent with their public sector customers.

### Case Study 16: Energy market

**Annual Plan Theme: Vulnerable consumers and consumers challenged by the adverse economic climate and pricing used as a barrier to fair choice and competition**

In March 2014 Ofgem announced it was minded to refer the energy market for an in-depth investigation by a Group of Independent Panel Members at the CMA, with a final decision on this action to be taken in July 2014. The announcement followed a joint assessment of competition in the energy market by the OFT, Ofgem and the CMA.

‘Our joint assessment identifies weak competition between larger energy suppliers, low customer trust and engagement, and barriers to entry and expansion. It also identifies a trend of rising profitability against a backdrop of declining demand, particularly in gas. Further analysis would be required to establish whether the energy firm have had the opportunity to earn excess profits’ – Vivienne Dews, OFT Chief Executive.

In December 2013, Ofgem, the OFT and the CMA published the framework for how they would assess competition in the energy market. We looked at the market shares of the six largest suppliers, how vigorously they were competing and how easy it was for new entrants to enter the market and compete against larger suppliers.

We also launched a CFI into the undergraduate higher education sector in England to explore how market-based reforms to the sector were likely to develop in practice.

Alongside our markets work we continued our programme of advocacy with policymakers, public sector commissioners and procurers.

We ran training sessions and disseminated guidance through professional organisations to raise awareness about the application of competition law to public organisations, and we gave informal guidance to a number of government organisations about how to introduce policy changes whilst minimising the impact on competition.

### **Case Study 17: Undergraduate education in England**

#### **Annual Plan Theme: Public markets**

On 14 March 2014 the OFT published a report following a review of the higher education sector in England.

We found that competition in many respects was working well, however we identified some policies and practices which might prevent universities from fully meeting student needs and maintaining their enviable international reputation.

The report found:

- Students not being given some key information, such as their teaching staff's experience or long-term employment prospects, to enable them to choose the most appropriate course and institution.
- Some policies and practices by universities, such as changes to elements of the course and/or fees, or not providing all the relevant information about their course, could put students at a disadvantage and might, in some cases, breach consumer protection legislation.
- While the complaints process had improved, it could be quicker and more accessible.
- The sector's regulatory regime was overly complex and did not reflect the increased role of student choice and the wider range of higher education institutions. In particular, there were concerns about the existence of a 'level playing field', the role of self-regulation, and the lack of arrangements should a university or course close.

The CMA will take forward our recommendations to ensure a more competitive and open market place for students.

## 8 INFLUENCING AND COLLABORATION

In addition to our enforcement and markets work the OFT has been committed to driving behavioural change across market sectors by engagement, collaboration and the development of guidance and other non-enforcement tools. We continued to build and maintain strong relationships with others, using opportunities to influence both nationally and internationally.

### International

We continued to build our relationships with our counterparts around the world, helping to drive international policy developments and build understanding and collaboration as world markets face continuing economic challenges. The importance of engaging internationally was demonstrated by our work relating to the children's online games sector. In April 2013 the OFT investigated this market to

understand if certain commercial practices could be considered misleading, aggressive or otherwise unfair under consumer protection law. Through consultation and dialogue we developed a set of principles clarifying our view of the children's online and app-based games industry's obligations under consumer protection law.

The OFT worked closely with the German Federal Cartel Office (the Bundeskartellamt) regarding the Amazon price parity case and with the European Commission and other European competition authorities regarding our work relating to online hotel room bookings. We also worked on EU legislation concerning contractual relations in the milk products sector (the EU Dairy Package) and on competition-related elements of reforms to the EU Common Agricultural Policy. In both cases our work with Defra and with

#### **Case study 18: Children's online games**

##### **Annual Plan Theme: Novel and developing markets and business practices**

In January 2014 the OFT published a set of principles addressing the ways in which online and app-based games encourage children to make purchases.

As a result of our leadership on this project, enforcement authorities in Europe and beyond publicly supported the Principles and indicated that they would, where possible, interpret their national consumer protection legislation in line with the Principles when investigating such online games.

We led engagement at a European level with other member states through the Consumer Protection Cooperation (CPC) network and internationally via the Consumer Protection and Enforcement Network (ICPEN). Through dialogue and collaboration we developed the Principles that are balanced and help to achieve consistency in compliance and enforcement strategies.

European counterparts helped to ensure that wider derogations from the competition rules for the agricultural sector were avoided.

We ran a joint project with enforcers in 12 EU member states, sharing our understanding of the Unfair Terms Directive and identifying common problems and potential solutions. We coordinated a programme of international workshops, funded by the EU, and published a study on the Unfair Terms Directive across Europe.

The OFT, together with the CC, was at the forefront of promoting international convergence and best practice, being a key partner in the international competition and consumer enforcement communities and leaving a strong legacy for the CMA to build on going forward.

### **Consumer law reform programme**

In June 2013, as part of its consumer law reform programme, BIS consulted on a draft Consumer Rights Bill. The Bill aims to revise and clarify key consumer rights for purchasing of goods, services, digital content and the law on unfair terms in consumer contracts as well as introducing proposals for enforcers' investigatory powers and enhanced consumer measures available to enforcers. The Consumer Rights Bill was introduced to Parliament in January 2014.

The OFT engaged closely with BIS to assist in ensuring that the proposals offer robust protection to consumers and to give the CMA the right tools for use in the context of consumer protection landscape as a whole.

We provided views on the implementation of the Consumer Rights Directive into UK law and proposals to introduce private rights of action into the Consumer Protection from Unfair Trading Regulations.

## **Collaboration, education and engagement**

### **Consumer Protection Partnership**

The OFT supported the development of the Consumer Protection Partnership (CPP) during 2013-14. It was formed in April 2012 as part of the Government's institutional reform of the consumer landscape, and includes the National Trading Standards Board, Trading Standards Scotland, the Department for Enterprise, Trade and Investment Northern Ireland, Consumer Futures, the Financial Conduct Authority, the Trading Standards Institute, Consumer Council for Northern Ireland, and the Citizens Advice Service. The CPP was chaired by an OFT Executive Director and the OFT managed two CPP processes to develop its capability: the agreement of CPP strategic priorities for 2013-14 and a review of the way in which the CPP gathers and uses its intelligence in order to focus on areas which cause consumers most detriment. A CPP Knowledge Hub was formed from this intelligence review. The CPP has also created a Strategic Group which will agree priorities and advise the Consumer Minister on how well the consumer landscape is working and an Operational Group which will be responsible for delivering the strategic priorities.

The CMA has been a member of the CPP from 1 April 2014 and is represented on both the Strategic and Operational Groups.

### **Consumer Concurrency Group**

We also chaired the Consumer Concurrency Group (CCG), which aims to share best practice and support the use of consumer powers by all partners. This was set up by the OFT in 2009 and we have hosted four working-level meetings per year since then. The group consists of the Advertising Standards Agency, the Civil Aviation Authority (CAA), the CMA, COSLA, DETI, the Information Commissioner's Office, the Financial Conduct Authority, the NTSB, Ofcom, the Office of Rail Regulation, Ofgem, Ofwat, PayphonePlus, and Which?

The CCG produced a 'toolkit' for enforcers to assist with consideration of consumer protection issues and we also developed specialist materials and training methods for enforcement staff on unfair contract terms, helping to build the capability of the OFT and other UK enforcers. The CCG was also a vital point of contact for sharing information and developing common positions about enforcement cases, investigations, compliance, procedures, policy and changes to consumer law and landscape. For example, the OFT and CAA developed a consistent approach to how businesses in the travel sector should advertise pricing information

on websites. It has also proved useful in building contacts and smooth working relations between the different enforcers.

### **Concurrency Working Party**

The OFT also chaired the meetings of the competition Concurrency Working Party (CWP), comprising representatives from the OFT and the concurrent competition regulators (the Civil Aviation Authority, Monitor, Ofcom, Ofgem, the Office of Rail Regulation, Ofwat and the Utility Regulator, Northern Ireland).

The OFT also engaged closely with concurrent competition regulators in the preparation of draft CMA guidance on Regulated Industries and Concurrency.

### **Guidance**

In July 2013 the OFT published revised and detailed leniency guidance, Applications for Leniency and No-Action in Cartel Cases (OFT1495), which was in turn adopted by the CMA. The new guidance included quick-reference charts and tables for ease of use and understanding and was accompanied by two 'Quick Guides', aimed at businesses and individuals. It provides a clear and practical framework for leniency applications, including a policy of not requiring legal professional privilege waivers as a condition of leniency.

## 9 ORGANISATIONAL DELIVERY AND CAPABILITY

### Developing our people

As an Investors in People (IIP) accredited organisation, we continued to prioritise skills development as an important investment. Despite the overall reduction in our funding, we increased our Learning and Development spend in 2013-14 to an average of £824 per person, compared with £764 in the previous year.

We funded individual development and supported staff to develop the professional and technical skills needed in preparation for the transition to HMRC, the FCA and CMA.

An IIP Health Check report in October 2013 concluded that the OFT achieved a high level of staff engagement, that transition had been managed well, and there was evidence of effective and supportive staff management. The CMA will carry on the OFT IIP accreditation, with a full review due in May 2015.

### Recruitment

OFT's permanent workforce fell during the year to 477 on 31 March 2014. The turnover rate among permanent staff during the year was 18.35 per cent and we recruited 35 new permanent staff. The permanent workforce was bolstered by a temporary workforce supporting both business as usual and providing additional support for transition activities. The average number of the

temporary workforce across the year was 114 although the number was close to 200 for part of the year.

We were particularly sorry to lose a number of senior staff during the year. This made it challenging to maintain delivery but also provided opportunities for more junior staff to step up to a higher level. We continued to recruit staff with specialist skills to support our enforcement functions, as well as promoting experienced OFT staff. Agency workers and short-term appointments have been used to fill skills gaps, to carry out activities to support the transition to HMRC, the FCA and CMA, and to resource peaks of work.

### Talent management and leadership development

During the year we built on earlier work to attract, retain, develop and engage talented staff. Heads of Profession for all the professional communities within the OFT supported career development for their professional groups. Several of our more senior staff were accepted on to Civil Service, Whitehall & Industry Group and other leadership programmes such as the Future Leaders Scheme, the Senior Leaders Scheme and the Development Programme for Director Generals.

The Senior Civil Servant (SCS) succession plan was monitored during the transition period, focusing on business critical roles.

## **Employee engagement and IIP**

In 2013, 67 per cent of the OFT staff responded to the civil service engagement survey. The overall engagement index was 61 per cent, three points above the civil service average and one percentage point above the OFT result for the previous year. We were particularly proud of this as the survey was taken at a time when many staff were uncertain about their future in the successor organisations.

The themes in the survey with the strongest association with staff engagement continued to be 'Leadership and managing change', 'My work' and 'My line manager'. Positive scores increased for 'Leadership and managing change' and 'My work' in the 2013 survey.

## **Diversity**

The OFT continued to maintain and encourage a diverse workforce. On 31 March 2014, 51.7 per cent of all permanent staff and 43.5 per cent of SCS staff were female. 24.5 per cent of staff declared themselves as being from an ethnic minority, 4.2 per cent of staff declared a disability and 3.6 per cent declared themselves as lesbian, gay or bisexual.

Flexible working was practised at all levels across the OFT, including the SCS. In the summer of 2013, the OFT again participated in the Whitehall Internship Programme, providing two work experience placements to increase workplace skills for college-age students from under-represented backgrounds.

The 2013 staff engagement survey showed a decrease in staff claiming to have been discriminated against since 2012 (down by two per cent) following a series of workshops with Groups to address concerns about bullying. No staff reported having experienced discrimination due to age, disability, gender, ethnicity or sexual orientation. Equality and diversity is something we considered fully in our internal activities and in our work to make markets work well for consumers.

## **Improving enforcement skills**

This year the Enforcement Academy, set up in 2012, continued to develop its training programme including running five Distinguished Speaker talks, a further ten hands-on investigatory and enforcement training sessions, as well as 11 Know-How talks. This training attracted a total of 1,180 attendances.

The training was available to colleagues in the CC and other concurrent regulators and proved to have a positive impact on the development of staff as knowledge and enforcement expertise was shared more effectively. The Enforcement Academy was central to staff development and provided an important sense of purpose, integration and continuity during a period of change.

We also made a significant investment in our cartels work this year. We continued to build on a dedicated intelligence function, developed a stronger, more expert investigator function and also recruited practised criminal prosecutors.

## 10 IMPACT INDICATORS AND EVALUATION

Over the course of the Spending Review period the impact of our work was assessed through indicators agreed with the HM Treasury as part of our 2011-15 Business Plan. These are:

- Estimation of direct savings to consumers from the OFT's activities (Positive Impact Report) and associated benefit to cost ratio.
- At least one independently audited in-depth ex-post evaluation of an intervention
- Provision of customer service key performance indicators for: Consumer Credit Licensing, Mergers and Anti-Money Laundering supervision
- Provision of statistics and information on the OFT's enforcement and non-enforcement activities, including results on appeal
- Publishing statistics of direct settlement, third party interventions and undertakings in lieu.

### Evaluation

Our commitment to gaining a better understanding of the impact of our work on consumers and the economy

continued this year. Through careful evaluation of our activities we were able to prioritise, target, conduct and follow up our work to maximise our impact and help to demonstrate whether we were delivering on our objectives and providing value for money.

### Impact estimation

Our performance target with the Treasury committed us to calculate direct financial benefit-to-cost ratios for different OFT work areas. To meet this target we published positive impact estimates which this year showed an overall benefit-to-cost ratio for the OFT of 10.1:1.

For individual OFT work areas, the estimated average savings to consumers were £90m from consumer protection enforcement, £151m from competition law enforcement, £11m from scrutiny of mergers and £200m from market studies. The methodologies underlying these estimates – explained in the OFT's 2010 impact estimation guide – are conservative, excluding, for example, wider impacts such as the regime's deterrence of anticompetitive mergers and non-compliance with competition and consumer law.

**Table: Estimated costs and benefits over time**

Years	2005/06 to 2007/08	2006/07 to 2008/09	2007/08 to 2009/10	2008/09 to 2010/11	2009/10 to 2011/12	2010/11 to 2012/13	2011/12 to 2013/14
<b>Total Benefits</b>	£326m	£409m	£359m	£326m	£402m	£422m	£452m
<b>Costs</b>	£59m	£53m	£50m	£48m	£49m	£48m	£45m
<b>Ratio</b>	<b>6:1</b>	<b>8:1</b>	<b>7:1</b>	<b>7:1</b>	<b>8.2:1</b>	<b>8.7:1</b>	<b>10.1:1</b>

The table presents estimates of consumer savings and OFT costs since OFT began calculating impact using this methodology.

### **Independent evaluations of interventions**

This year we undertook in-depth evaluations into the impact of our 2010 work on Cash ISAs and our clearance of the 2012 Shell/Rontec fuel retailing merger, although this was conditional upon divestment of 12 “forecourts”.

Our Cash ISA evaluation identified widespread implementation of our recommendations on switching and transparency and in particular of the industry establishing a faster electronic switching process. The faster switching process means that savers receive their new interest rate much sooner and receive interest for the entire duration of the switching

process. We estimated that this benefits savers by £6m a year in total. The consumer survey we conducted as part of the evaluation indicated that awareness of interest rates had improved and that switching rates had held up despite a challenging environment for savers of low interest rates.

Our evaluation of the Shell/Rontec merger found that the intervention was effective in countervailing petrol price increases in the local areas where the OFT concluded that the merger gave rise to competition concerns. This saved drivers in these areas over £150,000 in total. The evaluation corroborated the OFT’s assessment of the impact of the merger on competition, in the local areas where the OFT found the merger was problematic as well as the local areas where it did not. This provides important feedback on the merger assessment process.

## 11 SUSTAINABILITY REPORT

The OFT was committed to supporting the Government's Sustainable Development Strategies, designed to reduce impact on the environment. Our performance was benchmarked against a 2009/10 baseline following the adoption of Greening Government Commitment Operation and Procurement (GGCOP) targets.

### Greenhouse Gas Emissions

This year overall Greenhouse Gas emissions reduced 23 per cent, this was because:

- There were no new mechanical installations
- Maintenance repairs to fan-coil units resulted in better efficiency
- Heating timers reset and manually controlled when building reached optimum temperatures.

### Travel

In 2013-14 our rail travel expenditure reduced by 15.13 per cent, our taxi expenditure increased by 1.67 per cent and our air travel reduced by 5.42 per cent.

### Waste

The OFT's purchasing activity complied with the EU public procurement directives to achieve maximum value for money and to

minimise waste throughout the supply chain. Obsolete IT equipment was recycled via an approved government supplier.

This year there was a 15 per cent overall increase in general waste due to:

- Increased occupancy of about 60
- OFT clearing storage areas in preparation for building exit.

Recycling levels have gone up by 23 per cent from the base reporting year.

### Paper

Our paper usage was reduced this year by 27.5 per cent, which meets the 10 per cent GGC target. This was achieved due to increased use of scanning facilities resulting in fewer paper copies being required.

### Finite resource consumption: water

There was a small increase in water usage which was due to increased occupation and a higher number of visitors to the building. However, the previous water loss via cistern leaks ceased due to completion of a replacement programme in December 2013 and we reduced our water usage by 1.5 per cent from the 2009-10 base years.

## 12 OPERATING AND FINANCIAL REVIEW

The OFT's activities were funded by Parliamentary Vote. Funding comprised a Departmental Expenditure Limit (DEL) budget, which was set during the periodic Spending Review and covered day to day operational spending, and an Annually Managed Expenditure (AME) budget, which was agreed annually and covered the creation and utilisation of accounting provisions. Budgets were confirmed each financial year in a Supply Estimate. The OFT's DEL budget for 2013-14 was £69.6 million, and the AME budget was £1.5 million. Of the DEL budget £1 million related to capital expenditure cover and the balance to resource expenditure. The AME budget was entirely resource. The OFT's total resource funding requirement was therefore £70.1 million.

Actual resource outturn for the year was £65.3 million, an underspend of £4.8 million. Of this, £3.2 million was due to the non-take up of budgeted provisions. The remaining £1.6 million (2.3 per cent) related to our day-to-day operations being underspent and of that £1.1 million related to the ring-fenced litigation budget. A further £0.4m of the underspend was attributable to a reduction in the employee benefit accrual. This was due to many staff using their full annual leave entitlement prior to leaving the OFT under the redundancy schemes, or transferring to the Financial Conduct Authority and the liability for their untaken leave being transferred with them.

Our income included £13.3 million in respect of fees and charges levied on external customers in respect of licence fees charged for the administration of the Consumer Credit Act 1974 and £1.1 million in respect of fees charged for registration and supervision under the Money Laundering Regulations 2007.

During the year we invested £0.7 million in capital additions including substantial investment in the development of an Electronic Document Recording Management System. There was some slippage on this project, which contributed to an overall underspend of 27 per cent against the capital budget of £1 million.

### Auditors

Our resource accounts have been audited by the Comptroller and Auditor General, who has been appointed under statute and is responsible to Parliament. The cost of the audit (notional fee) was £80,000, which included £12,000 for the audit of the Trust Statement, which is published at Chapter 14. No non-audit work was undertaken by the auditors during the reporting period, hence no payments needed to be made for such work.

The Accounting Officer took all the steps that she ought to have taken to make herself aware of any relevant audit information, and to establish that our auditors were aware of that information. So far as she was aware, there was no relevant audit information of which our auditors were unaware.

Our internal audit was provided independently by PriceWaterhouseCoopers, but managed by the Head of Internal Audit who was a member of our staff.

### **Creditor payment, policy and performance**

We were committed to the prompt payment of our suppliers and sought to pay all valid invoices within 30

days of receipt. During 2013-14, 91.7 per cent (2012-13: 78.2 per cent) of invoices were paid within 30 days with 58.3 per cent (2012-13: 47.6 per cent) paid within 10 days.

### **Sickness absence**

After allowing for normal leave entitlement, 2.64 per cent of the total available working days were lost due to staff sickness absence.

## **13 RESOURCE ACCOUNTS**

### **Auditable Sections**

In accordance with the requirements of Schedule 7A of the Companies Act 1985 (as amended), only certain sections of the Remuneration Report have been subject to full external audit. These comprise the sections on salary and pension entitlements.

### **Service Contracts**

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report held appointments which were open-ended. Early termination, other than for misconduct, would have resulted in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk).

### **Remuneration (including salary) and pension entitlements**

The following sections provide details of the remuneration and pension interests of the most senior management (that is, Board members) of the OFT.

## Remuneration (salary and payments in kind and pensions)

### Single total figure of remuneration

Senior management	Salary (£000)		Bonus payments <sup>4</sup> (£000)		Pension benefits (£000)		Total (£000)	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Vivienne Dews <sup>5</sup>	95–100	125–130	15–20	–	–1,450	3	–1,340– –1,335	145–150
Clive Maxwell <sup>6</sup>	120–125	130–135	15–20	–	36	69	170–175	215–220
John Fingleton <sup>7</sup>	–	170–175	–	–	–	46	–	170–175
Cavendish Elithorn <sup>8</sup>	50–55	–	–	–	7	–	55–60	–
Sonya Branch <sup>9</sup>	70–75	30–35	10–15	–	9	2	85–90	85–90
Robert Laslett <sup>10</sup>	–	10–15	–	–	–	–	–	10–15

No Executive Board members received any benefits in kind in 2013-14 (2012-13: nil).

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in the OFT in 2013-14 was £135–140k (2012-13: £170–175k). This was 3.0 times (2012-13: 3.7) the median remuneration of the workforce, which was £46,000 (2012-13, £47,065).

<sup>4</sup> Bonuses shown in 2013-14 are for performance in 2012-13. Bonuses for performance in 2013-14 have not yet received ministerial approval and have not been included in the table above but have been accrued for in the 2013-14 accounts as follows: Clive Maxwell £15–20k; Cavendish Elithorn £15–20k.

<sup>5</sup> Vivienne Dews was appointed Chief Executive on 24 February 2014. She was previously an Executive Director. Her salary for 2013-14 reflects a reduction in working hours from the start of the year, as she took partial-retirement from 1 April 2013. This is reflected in the negative pension benefit.

<sup>6</sup> Clive Maxwell was appointed Chief Executive on 1 July 2012. His appointment ended on 21 February 2014. His full year equivalent salary in 2013-14 was in the band £135–140k.

<sup>7</sup> John Fingleton was Chief Executive until 30 June 2012, however, under the terms of his contract he continued to be paid by the OFT until 30 September 2013, spending the last three months on secondment to the Cabinet Office. His full year equivalent salary for 2012-13 was in the band £275–280k.

<sup>8</sup> Cavendish Elithorn was appointed Executive Director from 1 October 2013 and was responsible for Enforcement and Mergers His appointment ended on 21 February 2014. His full year equivalent salary in 2013-14 was in the band £125–130k.

<sup>9</sup> Sonya Branch was appointed Executive Director from 1 January 2013 and she was responsible for Enforcement and Mergers. Her appointment ended on 30 September 2013 when she took up her role as Executive Director in the Competition and Markets Authority. Her full year equivalent salary for 2013-14 was in the band £135–140k (2012-13 £130–135k). The figure above reflect only the periods during which she was on the OFT Board.

<sup>10</sup> Robert Laslett retired on 30 April 2012. His full year equivalent salary for 2012-13 was in the band £130–135k.

In 2013-14, no employees received remuneration in excess of the highest-paid director (2012-13: nil).

Remuneration, excluding the highest paid director, ranged from £19.3k to £124.8k (2012-13: £19.3 – 148.1k).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

	2013-14	2012-13
Band of highest paid Director's total remuneration (£000)	135–140	170–175
Median total remuneration	46,000	47,065
Ratio	3.0	3.7

A reduction in the level of remuneration of the highest paid director has led to an increase in the median pay figure.

### Non-Executive Board Members

	2013-14	2012-13
	Salary	Salary
	£000	£000
Philip Collins (Chairman)	175–180	175–180
Alan Giles	20–25	20–25
Frédéric Jenny	20–25	20–25
Anthony Lea	20–25	20–25
Philip Marsden	20–25	20–25
William Moyes	20–25	20–25

No bonuses were paid to Non-Executive Directors in 2013-14 (2012-13: nil).

Non-Executive Directors were reimbursed with the cost of travelling to and from the OFT including for attending OFT Board and other meetings. These reimbursements totalled £9,483 in 2013-14 (2012-13: £5,927) and the OFT met the resulting tax liability on behalf of those Directors.

**Non-Executive Board Members appointment details are as follows:**

	<b>Date: (A) appointed (R) reappointed</b>	<b>Appointment expired or date of leaving</b>
Philip Collins	(R) 1 October 2013	31 March 2014
Alan Giles	(R) 1 April 2011	31 March 2014
Frederic Jenny	(R) 1 April 2012	31 March 2014
Anthony Lea	(R) 1 April 2012	31 March 2014
Philip Marsden	(R) 1 April 2013	31 March 2014
William Moyes	(R) 1 April 2013	31 March 2014

**Salary**

‘Salary’ includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by the OFT and thus recorded in these accounts.

**Benefits in kind**

The monetary value of benefits in kind covers any benefits provided by the OFT and treated by HM Revenue and Customs as a taxable emolument. No Board members received any benefits in kind during 2013-14 (2012-13: nil).

**Bonuses**

Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2013-14 relate to performance in 2012-13 and the comparative bonuses reported for 2012-13 relate to the performance in 2011-12.

## Pension Benefits<sup>11</sup>

	Accrued pension at pension age as at 31 March 2014 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2014	CETV at 31 March 2013	Real increase in CETV
	£000	£000	£000	£000	£000
Vivienne Dews <sup>12</sup>	0–5 Plus lump sum of 0–5	0.0–2.5 plus lump sum of 0.0–2.5	27	1	-1,429
Clive Maxwell	35–40 Plus lump sum of 105–115	0.0–2.5 Plus lump sum of 5.0–10.0	507	450	20
Sonya Branch	10–15	0.0–2.5	140	125	4
Cavendish Elithorn	15–20	0.0–2.5	195	186	1

Neither the Chairman nor the other Non-Executive Board members were members of PCSPS. They had no pension entitlements with the OFT.

## Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes, either a ‘final salary’ scheme (classic, premium or classic plus), or a ‘whole career’ scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with pensions increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a ‘money purchase’ stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5 per cent and 6.25 per cent of pensionable earnings for classic and 3.5 per cent and 8.25 per cent for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2014. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years’ initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated

<sup>11</sup> The actuarial factors used to calculate CETVs were changed in 2013-14. The CETVs at 31 March 2013 and 31 March 2014 have both been calculated using the new factors, for consistency. The CETVs at 31 March 2013 therefore differ in some instances from the corresponding figures in the Remuneration Report for 2012-13 which were calculated using the previous factors.

<sup>12</sup> Vivienne Dews took partial retirement from 1 April 2013.

broadly as per classic and benefits for service from 1 October 2002 worked out as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website: <http://www.civilservice.gov.uk/pensions>.

### **Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual

or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### **Real increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

### **Compensation for loss of office**

No Board members received compensation for loss of office during 2013-14.

A handwritten signature in black ink, appearing to read 'V M Dews', written in a cursive style.

**Vivienne Dews**

Former Chief Executive and Accounting Officer

17 June 2014

## **Statement of Accounting Officer's Responsibilities**

Under Section 5 of the Government Resources and Accounts Act 2000, HM Treasury has directed OFT to prepare, for each financial year, accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of OFT and of its net resource outturn, resources applied to objectives, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- Make judgements and estimates on a reasonable basis
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts
- Prepare the accounts on a going concern basis.

HM Treasury has appointed the Chief Executive Officer as Accounting Officer of the OFT. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the OFT's assets, are set out in Managing Public Money published by the HM Treasury.

## **OFT Governance Statement 2013-14**

This Statement comprises:

Part A	Governance Framework: Explanation of the OFT's governance and accountability structure
Part B	Governance in 2013-14: An account of key issues and performance
Annexes	Supporting information on changes to the regime, relevant statutes and committees

### **Part A**

#### **Governance framework**

The Office of Fair Trading (OFT) was an independent non-ministerial government department responsible for competition, consumer protection and consumer credit licensing. It had a range of statutory functions, powers and duties enabling it to work with the overall mission of making markets work well for consumers. The Enterprise Act 2002 established the OFT as a statutory corporation on 1 April 2003, led by a Board. As part of the Government's reforms to the arrangements for competition, consumer protection and consumer credit licensing, the OFT closed on 31 March 2014, and its work and responsibilities passed to a number of different bodies (see annexe A).

Up to its closure, the OFT fulfilled its aim by:

- enforcing competition law including under the Competition Act 1998 and the Enterprise Act 2002
- enforcing consumer protection legislation in matters that affected consumers in general
- monitoring consumer credit through a licensing system under the Consumer Credit Act 1974
- operating a first phase merger control regime under the Enterprise Act 2002
- enforcing criminal and civil cartel legislation under the Enterprise Act 2002 and the Competition Act 1998
- conducting market studies and publishing market study reports and, in appropriate cases, making market investigation references to the Competition Commission.

Under the Enterprise Act 2002, the OFT had a number of general functions which supported the exercise of its more specific consumer protection and competition law powers duties and functions. The general functions comprised:

- acquiring information in relation to any of its functions;
- providing information to the public about matters relating to any of its functions;
- providing information and advice to ministers and other public authorities; and
- promoting good consumer practice in activities that affect consumers' economic interests.

**The legislation governing the OFT's main powers, duties and functions is shown at Annexe B.**

The OFT worked with its international counterparts to promote convergence and to take a consistent approach to tackling anti-competitive practices and protecting consumers' interests. The OFT was a member of the European Competition Network, the International Competition Network and of the International Consumer Protection and Enforcement Network.

### **OFT Board**

The Chairman and Members of the OFT Board (which consisted of the Chairman and no fewer than four other members) were appointed by the Secretary of State under paragraph 1, Schedule 1 of the Enterprise Act 2002. The Chief Executive was OFT's Accounting Officer (approved by HMT). The Board, as at 31 March 2014, comprised the non-executive Chairman, the Chief Executive and five non-executive directors; there were also two Executive Directors until 24 February 2014. The Board operated according to the Rules of Procedure that it had adopted,<sup>13</sup> which were published on the OFT website and which were reviewed periodically. These rules, where applicable, were to be read and interpreted together with the OFT's statutory powers and functions.

The Rules listed various matters (set out in Annexe C) that were reserved for the involvement of the Board. This list of matters did not preclude other matters or decisions that were delegated by the Board being referred to the Board. The Board reviewed and, if it was satisfied, approved the Annual Plan made under section 3 of the Enterprise Act 2002, the Annual Report made under section 4 of the Enterprise Act 2002, and the Annual Accounts.

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<sup>13</sup> The statutory power to make these rules is at paragraph 8, Schedule 1, Enterprise Act 2002.

The Board established the overall strategic direction of the OFT within the policy framework laid down under the Act and the resources allocated to the OFT by HM Treasury. It ensured that relevant guidance on the governance of public bodies and the principles of good corporate governance were duly regarded and that the OFT as a statutory body fulfilled its statutory functions and its obligations in relation to the use of public funds in accordance with all statutory provisions applicable to the OFT.

The Board held the organisation to account, receiving formal monthly and quarterly performance reports. In considering the quarterly performance reports, the Board assessed performance and considered current threats to delivery of the OFT's objectives through a review of the corporate risk register.

The Board established four committees – the Executive Committee, the Policy Committee, the Audit and Risk Assurance Committee and the Remuneration Committee, as shown at Annexe C. The Executive Committee established one sub-Committee, the Finance and Risk Committee (FRC).

The Executive Committee, chaired by the Chief Executive, advised the Board and had overall responsibility inter alia for the day-to-day leadership and management of the organisation and its work. The Committee's work included: developing annual and other performance objectives for the whole of the OFT for Board approval; ensuring delivery of the Annual Plan and other agreed objectives; ensuring best practice in risk management, decision-making, and quality control systems; approving substantial new work and projects; and leading and managing staff and ensuring that all resources were used efficiently and effectively. The Executive Committee also took responsibility for overseeing matters relating to the transition of OFT's powers and staff to the Financial Conduct Authority, HM Revenue & Customs and the Competition and Markets Authority.

The Policy Committee, chaired by the Chief Executive, considered OFT casework and the development of OFT policy relating to competition, consumer, credit, markets and mergers, taking decisions where necessary.

The Audit and Risk Assurance Committee was chaired by a non-executive director. The purpose of the Committee was to advise the Accounting Officer (the Chief Executive) and the Board on the adequacy of audit arrangements (internal and external) and on the implications of assurances provided in respect of risk and control, with a view to enabling the Board to assure itself of the effectiveness of the OFT's risk management system and procedures and its internal controls including business continuity and information technology. The Audit and Risk Assurance Committee's remit encompassed all aspects of corporate governance, risk management and internal control within the OFT.

The purpose of the Remuneration Committee was to make final recommendations to the Board on all aspects of remuneration decisions for the OFT's senior civil servants in accordance with the guidance in the Pay Strategy and with particular regard to equal opportunities. The Committee was chaired by the OFT Chairman.

The Finance and Risk Committee was chaired by an Executive Director. The Committee had responsibility for reviewing the risk management strategy and processes, as well as exercising corporate oversight of the risk and control framework. The Committee also oversaw the OFT's financial management and acted as the steering committee for the OFT's closure project. It ensured that appropriate information relating to financial matters and risk was reported to the Executive Committee and the Audit and Risk Assurance Committee.

### **Statutory Authorisations**

The OFT Chairman, through the Statutory Authorisations, authorised the Chief Executive and other OFT employees to make decisions and carry out tasks authorised and required to be done by the OFT under various enactments (listed at Annexe D), including those conferring its competition and consumer functions. The Statutory Authorisations were designed to demonstrate compliance with the requirement, arising from the fact that the OFT was a statutory body, that its employees acted on its behalf only in so far as specifically authorised to do so.

The level of authorisation depended on the particular role each staff member performed, and covered specific posts (including, but not restricted to: the Chief Executive; Executive Director; General Counsel; Director of Litigation; and Senior Directors and Directors in various nominated posts), as well as authorisations in respect of other Senior Civil Servants and OFT staff generally.

### **Board Performance**

Under its Rules of Procedure, the Board annually reviewed its overall performance. In addition, at the end of each Board meeting, members were asked to review any deliberations, interactions and decisions at that meeting. The performance of individual Board members (including the Chief Executive), was evaluated by the Chairman and any issues arising raised with the individual. The Chairman discussed with the Department for Business, Innovation and Skills (BIS) any issues which should be taken into account in considering terms of appointment or re-appointment. The non-executive directors as a group assessed the performance of the Chairman, and the senior non-executive director provided feedback to the Chairman, and to BIS.

## **Corporate Governance Code**

The OFT complied with the Corporate Governance Code<sup>14</sup> where applicable. However, as the OFT was a non-ministerial department created by statute with members appointed by the Secretary of State, some sections of the Code (e.g. those pertaining to the involvement of Ministers and Permanent Secretaries on the Board) were not relevant to the OFT. For instance, the Chairman, being an independent non-executive, performed the role of lead non-executive Board Member set out in the Code.

The OFT was subject to the general policy requirements set by the Government for all government departments, including those on diversity and equality, freedom of information, information technology (including data security), human resources (including recruitment and remuneration), finance (including procurement) and transparency.

The OFT operated a cascade system of objectives and authority to incur expenditure. Authority to incur expenditure was formally recorded in a set of delegated authorities emanating from the Accounting Officer to budget holders. In turn, financial authority was sub-delegated in writing to subordinate staff. A similar approach was applied to the setting of personal objectives.

## **Risk management**

The OFT's risks were identified at corporate, group, and project level. Group and project risks were held on risk registers at the appropriate level and were the responsibility of the relevant group or project leaders, who were required to identify, manage, review and escalate them as required. These risks were brought together at Executive Committee level on the corporate risk register.

Each Executive Committee member was required to review and maintain oversight of the arrangements for identifying and managing risk in the areas for which he or she was responsible and to report as appropriate to the Executive Committee, Audit and Risk Assurance Committee and the Board, in addition to providing the Accounting Officer with a report on how arrangements were managed.

The Finance and Risk Committee had a rolling programme of review of the corporate risk register. Significant risks could also be reviewed by the Audit and Risk Assurance Committee who could escalate risk to the Board. The Board monitored working-level risks through a monthly report from the Executive Committee on key developments, and the complete corporate risk register was reviewed quarterly by the Board as part of the Executive Committee's

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<sup>14</sup> *Corporate governance in central government departments: Code of good practice 2011*, HM Treasury.

performance report. The OFT's overall risk profile was informed through a monthly analysis of ongoing projects, with a summary of the rating of each project, which was reviewed by the Executive Committee and the Board.

The OFT applied risk management disciplines to its work. It incorporated post-project evaluation in the form of lessons learned studies where appropriate, and it also undertook formal evaluation of selected projects. Work was conducted where appropriate under a formally prescribed project management approach, codified in the OFT's Effective Project Delivery guidance.

### **Internal Audit**

The OFT had its own Internal Audit unit. The Head of Internal Audit was an OFT employee, responsible for overseeing the provision of the internal audit service which was contracted to PWC. The Audit and Risk Assurance Committee approved the annual programme of work undertaken by Internal Audit, and monitored progress throughout the year.

## Part B

### Governance in 2013-14

#### Board attendance

During 2013-14, the Board had 10 ordinary meetings and one full-day strategy meeting. Ordinary meetings generally ran for 6–7 hours and all Board meetings were held at the OFT's offices, with the exception of the strategy meeting which was held at Ofcom's offices (provided at no cost). Between meetings the Board was also updated or discussed issues by conference calls and emails.

Attendance of Board members at ordinary Board and Committee meetings is as shown in the following table:

Board Members	Board* <sup>15</sup>	Audit and Risk Assurance Committee	Remuneration Committee
Philip Collins	10/10		1/1
Clive Maxwell <sup>16</sup>	08/09		
Vivienne Dews <sup>17</sup>	10/10		
Sonya Branch <sup>18</sup>	04/04		
Alan Giles	10/10	5/5	1/1
Frédéric Jenny	09/10		
Anthony Lea	09/10	5/5	
Dr Philip Marsden	10/10	5/5	1/1
Dr William Moyes	10/10		
Cavendish Elithorn <sup>19</sup>	04/05		

*This table sets out Board member attendance for Board meetings in the financial year 2013-14 (1 April 2013 – 31 March 2014)*

*\* Does not include a number of conference calls held throughout the year as needed to update the Board between meetings.*

<sup>15</sup> Attendance indicates that the Board member took a full active part in the meeting and did not merely turn up for selected parts of the meeting.

<sup>16</sup> Clive Maxwell attended Board meetings to February 2014 when he resigned as Chief Executive.

<sup>17</sup> Vivienne Dews attended the final Board meeting in her capacity of Chief Executive.

<sup>18</sup> Sonya Branch attended Board meetings until her maternity leave in September 2013 (when she transferred to the Competition and Markets Authority).

<sup>19</sup> Cavendish Elithorn attended Board meetings from his appointment as Executive Director in October 2013 until his resignation in February 2014.

## **Board and senior changes**

On 24 February 2014 Vivienne Dews was appointed Chief Executive following Clive Maxwell's transfer to a new Civil Service role. Cavendish Elithorn was appointed as Executive Director in October 2013, when Sonya Branch went on maternity leave. He left the OFT on 24 February 2014. Given the short time left before the closure of the OFT it was agreed that the OFT would not appoint new Executive Directors, but that the remaining responsibilities would be transferred to Senior Directors. The Executive Committee continued to meet throughout 2013-14, chaired by the Chief Executive and attended by Executive Directors and then latterly Senior Directors. The Finance and Risk Committee also continued to meet, with meetings being held more frequently towards the end of the year to monitor transition and closure risks.

## **Audit and Risk Assurance Committee**

The Audit and Risk Assurance Committee held five meetings in 2013-14. It discussed progress made against internal audits, as well as the OFT's financial position. There was a particular focus on control of risks relating to transition to the successor bodies and closure of the OFT. The Committee also received regular updates on ICT.

## **Remuneration Committee**

The Remuneration Committee met once in 2013-14. It reviewed the operation of the annual Senior Civil Service performance review and moderation process, and decided on the final distribution of performance payments.

## **Consumer landscape**

On 11 April 2012, BIS announced proposals to reform the consumer landscape which have come into effect over the last two years. Final changes to the consumer landscape concluded with the passing of the Public Bodies (Abolition of the National Consumer Council and Transfer of the Office of Fair Trading's Functions in relation to Estate Agents etc) Order 2014 on 10 February 2014. The Order deals with the transfer of the estate agency functions of the OFT to Her Majesty's Revenue and Customs and to Powys Trading Standards Service from 1 April 2014.

The OFT also ensured that the Convention of Scottish Local Authorities and the National Trading Standards Board had access to all available data and information to enable the smooth transfer of contracts and content of three intelligence databases held by the OFT.

## **Transition**

Following the Government's announcement that the OFT would cease to exist on 31 March 2014, with its functions transferring to successor bodies, the OFT established a Transition Team to manage the transition project. The team's role included: liaison with the Department for Business, Innovation and Skills (BIS), successor bodies, the Competition Commission (CC), and other interested parties on transition-related issues; facilitating expert input into the process; ensuring effective communication with staff; coordinating the closure of the OFT; and keeping the Executive Committee and the Board informed.

A Transition Staff Group was set up with representatives from each Group to provide a forum for staff to raise questions and concerns from their areas, and discuss issues relating to all aspects of the transition project. The corporate risk register was regularly updated to incorporate risks the OFT may have been open to during the transition.

## **Consumer Credit**

The Financial Services Act 2012 made provision for the Government to transfer the regulation of consumer credit to the Financial Conduct Authority (FCA). A new regulatory regime was designed, which the FCA has operated from 1 April 2014. Throughout the year, the OFT worked with the FCA, BIS and HM Treasury to ensure that the OFT's knowledge and experience of consumer credit was captured in the design of the new regime and that a smooth and effective transition was achieved. Specifically, the OFT assisted in the establishment of the FCA's Interim Permissions regime and sought to ensure that the closure of the consumer credit licensing function aligned fully with the commencement of the FCA's authorisations process. As part of the transition arrangements, the government decided that credit licence holders would be entitled to rebates if their licence had been issued within the period of five years prior to the OFT's closure, to reflect the unexpired portion of the licence. It was estimated that the cost of these rebates could total £30m, and this amount was transferred to the Financial Conduct Authority in December 2013, with HM Treasury approval.

## **Competition and Markets Authority (CMA)**

During its last year the OFT worked very closely with the shadow CMA, which came into existence on 1 October 2013, BIS and the Competition Commission to facilitate the creation of the CMA.

The OFT also seconded a team of senior staff to help build the CMA including the development of its organisational structure, business architecture and guidance on how it would use its new powers. The CMA Chair and Chief Executive designates attended part of most OFT Board meetings as observers from the point at which they were appointed. The OFT and CMA Boards discussed matters of common interest, notably relating to transfer of responsibilities, on two occasions.

## **Risk management**

The OFT continued to operate within its risk and control framework. The corporate risk register was kept under regular review, with individual risks being reviewed by the FRC on a periodic basis. In recognition of the unusual operating environment as a result of transition, a revised risk management strategy was agreed by the Audit and Risk Assurance Committee. Work was carried out to keep the Executive Committee and the Board abreast of localised emerging risks in addition to corporate risks. The OFT ran dedicated risk workshops to help identify and mitigate risks relating to transition. Transition risks were closely monitored by individual workstream groups as well as by a Transition Board.

In considering mitigation to tackle risks, the OFT was always mindful of the cost of control compared to the potential risk exposure. This was especially relevant in the final months of the organisation. This trade-off was relevant in decisions for example about addressing vulnerabilities in legacy IT systems; in several cases the OFT decided that it would not represent good value for money to remedy deficiencies in systems with a very short remaining life.

The OFT's risk management arrangements were examined by internal audit during the year, with the conclusion that there was 'substantial assurance' on the control system.

## **Major risks and issues**

The OFT managed a number of risks associated with its role as a competition and consumer authority. Additionally there were risks associated with Transition and the OFT's closure. There were some IT risks which are described in more detail under Data Security. During the year a significant number of senior staff, including the Chief Executive, left the OFT. These departures were managed with interim appointments and the re-allocation of responsibilities to ensure that key fora (e.g. the Executive Committee and the Policy Committee) remained effective decision-making bodies.

## **Data security**

The OFT's Director of Business Services was the Senior Information Risk Owner, supported by a Departmental Security Officer and a Deputy. An Information Assurance Manager also strengthened control in this area.

The number of reported security breaches increased from 66 in 2012–13 to 71 in 2013–14 (end February 2014). The small increase partly reflected a more rigorous approach to reporting and recording of all security incidents and breaches during 2013-14 alongside other initiatives such as increased monitoring, better staff and Information Asset Owner engagement and more effective communication on information security issues, for example, through a quarterly newsletter. These actions raised staff awareness. As is standard practice either the Departmental Security Officer or the Deputy investigated all breaches. Eleven breaches were reported under Cabinet Office requirements.

The OFT's accreditation in respect of the Government's Secure Intranet (GSI) expired in September 2013 and was placed in the renewal process by the Public Services Network Authority (PSNA). The OFT was permitted to continue to use the GSI although accreditation was not formally renewed until 3 February 2014, after remedial actions to address a number of issues had been completed to the satisfaction of the PSNA. The unique challenges faced by OFT in its final operating year were a key part of discussions with the PSNA together with how best, and by whom, these should be addressed i.e. OFT or CMA.

As part of these actions, in November 2013 the OFT's IT network systems underwent a health check by a Communications Electronic Security Group accredited security company. This health check revealed already known vulnerabilities related to legacy systems, particularly the 15 year old case management system and PROMOD, the credit licensing system. In view of the very limited lifespan of these systems, and the cost of addressing the weaknesses, it was decided to accept the risks presented.

The annual review of the Business Continuity plans occurred alongside initiatives for engaging staff and raising awareness about business continuity matters such as a scenario-based Business Continuity exercise.

## **Diversity**

The OFT continued to maintain and encourage a diverse workforce. On 31 March 2014, 51.7 per cent of all permanent staff and 43.5 per cent of SCS staff were female. 24.5 per cent of staff declared themselves as being from an ethnic minority, 4.2 per cent of staff declared a disability and 3.6 per cent declared themselves as lesbian, gay or bisexual.

## **Internal audit review**

The Head of Internal Audit has provided the following audit opinion:

“I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a valid and reasonable conclusion as to the adequacy and effectiveness of key controls and the OFT’s risk management and governance processes.

In my professional opinion, Moderate Assurance can be given that there is basically a sound system of internal control, designed to meet the OFT’s objectives; and that controls are being applied consistently. Some improvements could have been made to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Three out of seven audits on which this opinion is based fall within the responsibilities of the Business Innovation and Skills Department (BIS) together with the Competition and Markets Authority (CMA) to deliver the transition of the OFT’s work and activities to the Competition and Markets Authority.

During the year I identified some weaknesses in the design and operation of controls and instances of non-compliance, which could have put at risk the achievement of some Office of Fair Trading strategic objectives and also some of the BIS and CMA’s transition objectives. These instances were in general isolated to specific activities, functions or departments and in my opinion are not systemic in nature. Action was taken to strengthen control on most of the highest rated risks, but there are still discrete areas outstanding which will be notified to the successor body, the Competition and Markets Authority for consideration in the design of their systems, ways of working and control processes inherited from the OFT.

The system of internal control is complemented by the risk management and assurance framework to manage strategic, financial and operational risks to which the organisation is exposed; and to support the Accounting Officer’s Governance Statement.”

## **Accounting Officer’s Assessment**

I was appointed Accounting Officer on 24 February 2014 and I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of Internal Audit and by Letters of Assurance received from the outgoing Chief Executive, Clive Maxwell and other budget holders across the OFT, and by advice from the Audit and Risk Assurance Committee.

Key risks which could affect the achievement of the Office's objectives have been managed actively under the risk management arrangements described above, with progress being reported regularly to the Audit and Risk Assurance Committee and the Board. In the nearly six years since the Audit and Risk Assurance Committee was restructured, the OFT's corporate services were overhauled and new internal audit arrangements set up, the OFT's internal controls have been progressively and substantially strengthened. This has involved the implementation of a range of organisational, cultural and system improvements. In the last year, the challenge of transition to successor bodies created additional risks; robust structures and processes were established specifically to manage these risks.

Overall, on the basis of assurances received I am satisfied that there was an acceptable system of internal control.



**Vivienne Dews**

Former Chief Executive and Accounting Officer

17 June 2014

## **Annexe A**

As part of the Government's reforms to the arrangements for competition, consumer protection and consumer credit regulation, the Office of Fair Trading (OFT) closed on 31 March 2014, and its work and responsibilities passed to a number of different bodies.

### **Competition and Consumer Protection**

The Competition and Markets Authority (CMA) brings together the Competition Commission (CC) and the competition and certain consumer functions of the OFT in a single body.

The CMA was established under the Enterprise and Regulatory Reform Act 2013 and came into being in October 2013. It took on its full powers and responsibilities, such as competition law enforcement, market studies and investigations, and merger control, on 1 April 2014.

Previously, on 1 April 2013, local authority Trading Standards Services had taken on the lead role in enforcing consumer protection law, including at the national level. The CMA will retain the OFT's powers to enforce consumer law, with lead responsibility on unfair contract terms, using them to tackle widespread practices and market conditions that make it difficult for consumers to exercise choice or to seek out the best deal – for example, where consumers are prevented from switching suppliers by unfair contracts or where misleading pricing practices are widely used.

A number of sectoral regulators shared concurrent competition and consumer powers with the OFT, and will continue to share these powers with the CMA. These include Ofcom, Ofgem, the Office of the Rail Regulator, OFWAT, the Civil Aviation Authority, the Financial Conduct Authority and Monitor (competition powers only).

### **Consumer Credit**

On 1 April 2014, the Financial Conduct Authority (FCA), which regulates the financial services industry in the UK, became the regulator of consumer credit industry under a new regulatory regime with enhanced powers.

### **Anti-Money Laundering**

On 1 April 2014, the OFT's anti-money laundering powers and responsibilities passed to the FCA (in respect of consumer credit financial institutions), and to HMRC (in respect of estate agents).

## **Regulation of Estate Agents**

On 1 April 2014, the OFT's powers to prohibit or warn estate agents, and to authorise estate agents' redress schemes, passed to Powys County Council.

### **Legislation covering the OFT's main powers, duties and functions**

- Competition Act 1998
- Consumer Credit Act 1974
- Consumer Protection from Unfair Trading Regulations 2008
- Distance Selling Regulations (Consumer Protections (Distance Selling) Regulations 2000)
- Enterprise Act 2002
- Estate Agents Act 1979
- Financial Services and Markets Act 2000
- Legal Services Act 2007 and Legal Services (Scotland) Act 2010
- Money Laundering Regulations 2007
- Payment Services Regulations 2009
- Transport Act 2000 and Transport (Scotland) Act 2001
- Unfair Terms in Consumer Contracts Regulations 1999.

## **Annexe B**

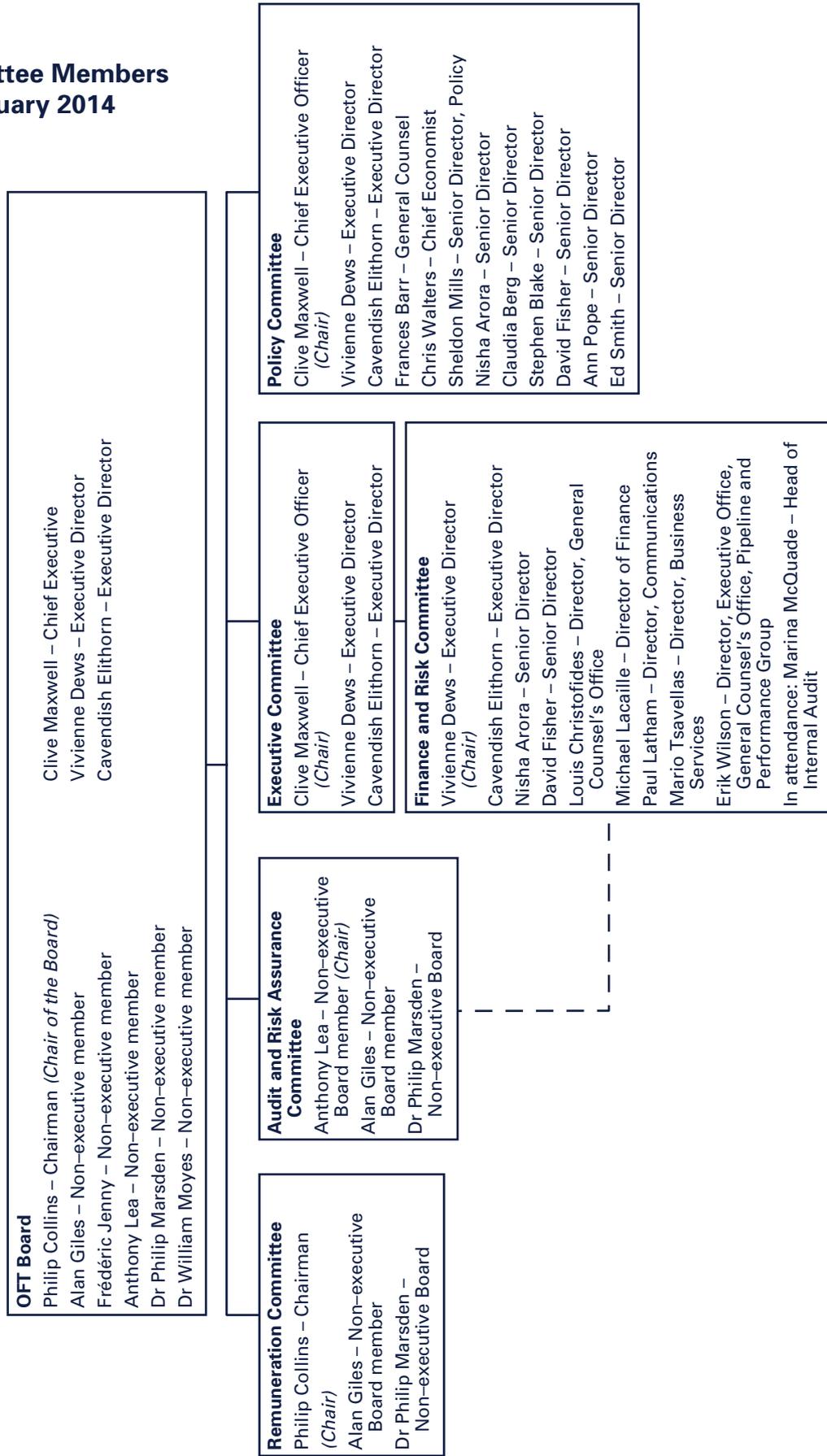
### **Matters reserved for Board involvement\***

- B.1. Approval of settlement of long-term funding arrangements with HMG.
- B.2. Approval of the Annual Plan and the Budget and monitoring performance in delivery of the plan and performance objectives.
- B.3. Approval of Resource Accounts and Annual Report.
- B.4. Approval of changes in office location and lease terms.
- B.5. Approval of Market Investigation References to the Competition Commission.
- B.6. Approval of Market Studies.
- B.7. Review of strategy and systems for identifying and developing leadership, for succession planning, for governance and for business continuity within the organisation.
- B.8. Review of the risk appetite for the organisation and the framework for assessing, managing and taking risks, to ensure that risks can be assessed, managed and taken prudently and that there is clear accountability for managing risks.
- B.9. Review of strategy for the recruitment, retention and development of staff to ensure that officials are equipped with the relevant skills and guidance to perform their assigned roles effectively and efficiently.
- B.10. Review of significant changes to organisational structure, governance and OFT's position within the competition and consumer regimes.
- B.11. Review of matters which may significantly affect:
  - a. the reputation of the OFT or its relations with Ministers and other Government departments, courts, enforcement partners, the European Commission and national competition or consumer agencies
  - b. the evolution or development of the competition or consumer law regimes or which raise significant general issues of policy, principle or strategy for the present or future work of the OFTsuch matters (including the commencement or defence of major litigation) are to be identified through close communication between the Chairman and the Chief Executive.
- B.12. Approval of the application of the section 36 exemption (effective conduct of public affairs) under the Freedom of Information Act 2000.

\* The Board has supreme authority for all aspects of the executive's operations. However, the Board chooses to delegate many of these powers. A list of the powers which the Board has chosen not to delegate is set out in Annexe B. The list of matters reserved for Board involvement (Annexe B) replicates Annexe A of the Board rules of procedure. No new matters have been reserved during the course of 2013-14.

# Annexe C

## OFT Committee Members as at 31 January 2014



## **Annexe D**

### **Statutory Authorisations – relevant statutes**

#### **Competition functions**

- i. Fair Trading Act 1973
- ii. Solicitors (Scotland) Act 1980
- iii. Gas Act 1986
- iv. Electricity Act 1989
- v. Broadcasting Act 1990
- vi. Courts and Legal Services Act 1990
- vii. EEC Merger Control (Distinct Market) Regulations 1990
- viii. Law Reform (Miscellaneous Provisions) (Scotland) Act 1990
- ix. Water Industry Act 1991
- x. Competition Act 1998
- xi. EC Competition Law (Articles 84 and 85) Enforcement Regulations 2001
- xii. Financial Services and Markets Act 2000
- xiii. Transport Act 2000 (as amended by the Local Transport Act 2008)
- xiv. Transport (Scotland) Act 2001
- xv. Enterprise Act 2002
- xvi. Relevant Council Regulations
- xvii. (Council Regulation No.1 of 2003 and Council Regulation No.139 of 2004)
- xviii. Payment Services Regulations 2009
- xix. Power to Suspend a Consumer Licence with Immediate Effect  
(February 2013)

#### **Consumer functions**

- i. Consumer Credit Act 1974 (as amended by the Consumer Credit Act 2006)
- ii. Estate Agents Act 1979
- iii. Unfair Terms in Consumer Contracts Regulations 1999
- iv. Consumer Protection (Distance Selling) Regulations 2000
- v. Section 8, Part 8 and 9, Enterprise Act 2002
- vi. Sale and Supply of Goods to Consumers Regulations 2002
- vii. Financial Services (Distance Marketing) Regulations 2004
- viii. Business Protection from Misleading Marketing Regulations 2008
- ix. Consumer Protection from Unfair Trading Regulations 2008

## **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Office of Fair Trading for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement.

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

### **Opinion on regularity**

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2014 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2014 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in "The Board", "Supporting Transition", "Enforcement", "Consumer Credit and Anti-Money Laundering Regulation", "Mergers and Markets", "Influencing and Collaboration", "Organisational Delivery and Capability", "Impact Indicators and Evaluation", "Sustainability report" and the "Operating and Financial Review" for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## **Report**

My report is at pages 78 to 80.

**Sir Amyas C E Morse**                      **18 June 2014**  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

# REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

## Introduction

The Office of Fair Trading was a non-ministerial department, responsible for enforcing consumer protection law and competition law, reviewing proposed mergers and conducting market studies. It was created after the passing of the Fair Trading Act 1973. The role of the Office of Fair Trading was complemented by the work of the Competition Commission, whose remit was to conduct in-depth investigations into mergers and markets, and to deal with other enquiries in those regulated industries as set out in United Kingdom Competition Law. The Commissions' investigations could only be undertaken following a reference from the Office of Fair Trading or one of the sector regulators.

In 2012 the Government announced its plans for reform of the United Kingdom competition regime. These plans were set out in the Enterprise and Regulatory Reform Act 2013. The Act provided for the abolition of the Office of Fair Trading and the Competition Commission, and the creation of a new Competition and Markets Authority which took place on 1 April 2014. The majority of the Office of Fair Trading's powers and functions were transferred to the Competition and Markets Authority, along with all the functions of the Competition Commission.

I am responsible for auditing, certifying and reporting on the financial statements of the Competition and Markets Authority, as the successor body to the Office of Fair Trading.

Included within the scope of my audit of the financial statements for the year ending 31 March 2014, is work to provide assurance to Parliament over the completeness and subsequent transfer and distribution of those assets and liabilities held by the Office of Fair Trading at the point at which it was closed.

## Basis of preparation of the financial statements

I draw attention to the disclosures made in Note 1.1 to the financial statements. The Office of Fair Trading ceased operations on the 1 April 2014. Its assets and liabilities, amounting to total net liabilities of £47.82 million were transferred to the Competition and Markets Authority, the Financial Conduct Authority, HM Revenue and Customs, and the Department of Business, Innovation and Skills, as set out in the following paragraphs. As the majority of functions of the Office of Fair Trading continue to be carried out within the public sector, the financial statements have been prepared on a going concern basis, as required by the Government Financial Reporting Manual.

## **Costs reported in the financial statements**

The Office of Fair Trading's financial statements report the costs of the entity's operations for the financial year. The expenditure relating to the setting up of the Competition and Markets Authority is recognised in the Department for Business Innovation and Skills' financial statements. The Office of Fair Trading incurred such costs of £5.6 million on behalf of the Department of Business Innovation and Skills, which were reimbursed by the Department.

## **Assets and liabilities transferred to the Competition and Markets Authority and other organisations**

As at 31 March 2014, the Office of Fair Trading held assets of £10.88 million and liabilities of £58.71 million. The main assets held by the Office of Fair Trading included: property, plant and equipment assets which mostly comprised information technology assets of £0.79 million; and other receivables due and cash of £10.06 million.

The Office of Fair Trading's liabilities include a provision relating to its obligations under its lease for Fleetbank House of £42.64 million, amounts payable to suppliers and other parties of £10.59 million and pension liabilities of £1.71 million. The pension liabilities are to cover the pensions granted to some former Chairmen and Directors General.

The majority of the Office of Fair Trading's functions passed over to the Competition and Markets Authority, with some functions moving to other organisations. The associated assets and liabilities were transferred as set out below:

- Under the transfer scheme, approved by Ministers, the Competition and Markets Authority received assets of £4.51 million and liabilities of £8.87 million, giving a net liability of £4.36 million. Meeting the cost of these liabilities will ultimately be covered by future grants of supply authorised by Parliament under the estimates process, as the Authority is a non-ministerial department funded by Parliament;
- The same scheme transferred the pension liability of £1.71 million to the Competition and Markets Authority;
- Responsibility for the operating lease for Fleetbank House, including the related provision of £42.64 million, has been novated to the Secretary of State for Business Innovation and Skills;
- Non current assets with a recorded value of £2 million were depreciated in the course of the 2013-14 financial year. No assets were sold during the year;
- The Office of Fair Trading's cash of £6.38 million has been returned to the Consolidated Fund as unspent supply and excess income;

- Under a separate transfer scheme, responsibility for the Office's consumer credit functions transferred to the Financial Conduct Authority, including associated accrued income of £0.81 million and a funded provision for future refunds of consumer credit licenses of £30 million as agreed with HM Treasury;
- Liabilities of £8,000, associated with the Office of Fair Trading's functions under the Money Laundering Regulations 2007, were transferred to HM Revenue and Customs

My audit has provided me with assurance that the transfer of assets has been carried out in accordance with the transfer scheme. I have also gained assurance that the Office of Fair Trading's assets and liabilities as at 31 March 2014 have been completely and accurately recorded in the financial statements.

**SIR AMYAS C E MORSE**  
Comptroller and Auditor General  
18 June 2014

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

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2013-14 as at 31 March 2014

				2013-14			2012-13		
				Estimate			Outturn		
Note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted Outturn compared with Estimate: saving/ (excess)	Outturn	
	£000	£000	£000	£000	£000	£000	£000	£000	
<b>Departmental Expenditure Limit</b>									
– Resource	2.1	68,665	–	68,665	67,046	–	67,046	1,619	49,141
– Capital	2.2	1,002	–	1,002	733	–	733	269	343
<b>Annually Managed Expenditure</b>									
– Resource	2.1	1,500	–	1,500	(1,748)	–	(1,748)	3,248	38,735
– Capital	2.2	–	–	–	–	–	–	–	–
<b>Total Budget</b>		<b>71,167</b>	<b>–</b>	<b>71,167</b>	<b>66,031</b>	<b>–</b>	<b>66,031</b>	<b>5,136</b>	<b>88,219</b>
<b>Non-Budget</b>									
– Resource		–	–	–	–	–	–	–	–
<b>Total</b>		<b>71,167</b>	<b>–</b>	<b>71,167</b>	<b>66,031</b>	<b>–</b>	<b>66,031</b>	<b>5,136</b>	<b>88,219</b>
<b>Total Resource</b>		<b>70,165</b>	<b>–</b>	<b>70,165</b>	<b>65,298</b>	<b>–</b>	<b>65,298</b>	<b>4,867</b>	<b>87,876</b>
<b>Total Capital</b>		<b>1,002</b>	<b>–</b>	<b>1,002</b>	<b>733</b>	<b>–</b>	<b>733</b>	<b>269</b>	<b>343</b>
<b>Total</b>		<b>71,167</b>	<b>–</b>	<b>71,167</b>	<b>66,031</b>	<b>–</b>	<b>66,031</b>	<b>5,136</b>	<b>88,219</b>

### Net Cash Requirement 2013-14 as at 31 March 2014

Note	2013-14		2013-14		2012-13
	Estimate		Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
	£000		£000	£000	£000
4	72,274		67,978	4,296	51,281

### Administration Costs 2013-14 as at 31 March 2014

Note	2013-14		2013-14		2012-13
	Estimate		Outturn		Outturn
	£000		£000		£000
3	11,832		10,648		11,883

Figures in the areas outlined in bold were voted totals or other totals subject to Parliamentary or other control. Explanations of variances between Estimate and Outturn are given in Note 2 and the Operating and Financial Review.

The notes on pages 82 to 115 form part of these financial statements.

# Notes to the Resource Accounts – Statement of Parliamentary Supply (SOPS)

## SOPS 1 Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

### SOPS 1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

### SOPS 1.2 Receipts in excess of HM Treasury agreement

This applies where HM Treasury has agreed a limit to income retainable by the department, with any excess income scoring outside of budgets, and consequently outside of the Statement of Parliamentary Supply. IFRS-based accounts will record all of the income, regardless of the budgetary limit. This situation may arise in the following areas: (i) profit/loss on disposal of assets; (ii) income generation above department Spending Review settlements; and (iii) income received above netting-off agreements.

### SOPS 1.3 Provisions – Administration and Programme expenditure

Provisions recognised in IFRS-based accounts are not recognised as expenditure for national accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and national accounts, additional data entries are made in the Statement of Parliamentary Supply across AME and DEL control totals, which do not affect the Statement of Comprehensive Net Expenditure. As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the Statement of Parliamentary Supply will differ from that reported in the IFRS-based accounts. A reconciliation is provided in SoPS note 3.2

### SOPS 2 Net outturn

#### SOPS 2.1 Analysis of net resource outturn by section

	Outturn						2013-14		2012-13	
	Administration			Programme			Total	Estimate	Outturn	
	Gross	Income	Net	Gross	Income	Net		Net total	Total	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Spending in Departmental Expenditure Limit (DEL)										
Voted: A	14,888	(4,242)	10,646	63,621	(7,221)	56,400	67,046	68,665	1,619	49,141
Annually Managed Expenditure (AME)										
Voted: B	-	-	-	(1,748)	-	(1,748)	(1,748)	1,500	3,248	38,735
<b>Total</b>	<b>14,888</b>	<b>(4,242)</b>	<b>10,646</b>	<b>61,873</b>	<b>(7,221)</b>	<b>54,652</b>	<b>65,298</b>	<b>70,165</b>	<b>4,867</b>	<b>87,876</b>

Within the 2013-14 DEL funding the OFT received a ring-fenced budget of £1.7 million for litigation costs. Of this only £0.6 million was utilised, thereby contributing £1.1 million pounds towards the underspend of £1.6 million. Of the remainder of the underspend, almost £0.5 million was due to a reduction in the employee benefit accrual. The latter reduction was caused by a number of factors including: some staff transferred to the Financial Conduct Authority under TUPE terms and their annual leave entitlement transferred with them; others left the OFT under redundancy arrangements and fully utilised their leave entitlement before their leaving date.

Only £0.3 million of the AME funding of £1.5 million was utilised on pension provisions, but there was also a large release of unwanted provision relating to the onerous lease.

## SOPS 2.2 Analysis of net capital outturn by section

	2013-14					2012-13
	Outturn			Estimate		Outturn
	Gross	Income	Net	Net total	Net total compared to Estimate	Net
	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limit						
Voted: A	733	–	733	1,002	269	343
Annually Managed Expenditure						
Voted: B	–	–	–	–	–	–
<b>Total</b>	<b>733</b>	<b>–</b>	<b>733</b>	<b>1,002</b>	<b>269</b>	<b>343</b>

## SOPS 3 Reconciliation of outturn to net operating cost and against Administration Budget

### SOPS 3.1 Reconciliation of net resource outturn to net operating cost

		2013-14	2012-13
	Note	£000	£000
Total resource outturn in Statement of Parliamentary Supply	2	65,298	87,876
Less: income payable to the Consolidated Fund		(3,170)	(3,013)
<b>Net operating costs in Statement of Comprehensive Net Expenditure</b>		<b>62,128</b>	<b>84,863</b>

### SOPS 3.2 Outturn against final Administration Budget and Administration net operating cost

	2013-14	2012-13
	Outturn	Outturn
	£000	£000
Estimate – administration costs limit	11,832	12,748
Outturn – gross administration costs	14,888	16,369
Outturn – gross income relating to administration costs	(4,242)	(4,486)
<b>Outturn – net administration costs</b>	<b>10,646</b>	<b>11,883</b>

## SOPS 4 Reconciliation of Net Resource Outturn to Net Cash Requirement

		Estimate	Outturn	Net total outturn compared with Estimate: Saving/ (excess)	2012-13 outturn
	Note	£000	£000	£000	£000
<b>Resource Outturn</b>	2.1	70,165	65,298	4,867	87,876
<b>Capital Outturn</b>	2.2	1,002	733	269	343
<b>Accruals to cash adjustment</b>					
Depreciation	4,5	(2,393)	(2,169)	(224)	(1,493)
New provisions and adjustments to previous provisions	4,5	(1,500)	1,433	(2,933)	(44,540)
Other non-cash items	4,5	–	(23)	23	(23)
<b>Adjustments to reflect movements in working balances:</b>					
Changes in receivables	15	–	1,452	(1,452)	(785)
Changes in payables	15	5,000	(2,231)	7,231	4,098
Amounts surrendered to the Consolidated fund		–	3,170	(3,170)	–
Use of provisions	20	–	315	(315)	5,805
<b>Net cash requirement</b>		<b>72,274</b>	<b>67,978</b>	<b>4,296</b>	<b>51,281</b>

## SOPS 5 Income payable to the Consolidated Fund

### SOPS 5.1 Analysis of income payable to the Consolidated Fund

Income payable to the Consolidated Fund in 2013-14 amounted to £3,170,019 (2012-13: £3,012,937). Income payable in 2012-13 was amended in 2013-14

This represents credit licence fee income in excess of the cost of operating to credit licence scheme.

### SOPS 5.2 Consolidated Fund income

Full details of income collected as agent of the Consolidated Fund are in the OFT's Trust Statement, published separately as an annex to these financial statements. The excess income relating to credit licence fees mentioned in SOPS 5.1 is not included in the Trust Statement.

## Statement of Comprehensive Net Expenditure for the period ended 31 March 2014

		2013-14	2012-13
	Note	£000	£000
<b>Administration Costs:</b>			
Staff Costs	3	6,487	7,716
Other Costs	4	8,401	8,653
Income	6	(4,242)	(4,486)
<b>Programme Expenditure:</b>			
Staff Costs	3	28,263	28,978
Other Costs	5	33,610	54,062
Income	6	(10,391)	(10,060)
<b>Net Operating Costs</b>		<b>62,128</b>	<b>84,863</b>
Total expenditure		76,761	99,409
Total income		(14,633)	(14,546)
<b>Net Operating Costs</b>		<b>62,128</b>	<b>84,863</b>
<b>Other Comprehensive Net Expenditure</b>			
Net loss/(gain) on actuarial review of by-analogy pension scheme		121	57
<b>Total Comprehensive Net Expenditure</b>		<b>62,249</b>	<b>84,920</b>

These accounts are produced on a going concern basis (see note 1.1 for more detail regarding the going concern basis).

The notes on pages 82 to 115 form part of these financial statements.

## Statement of Financial Position as at 31 March 2014

		31 March 2014	31 March 2013 re-stated	31 March 2013
	Note	£000	£000	£000
<b>Non-current assets:</b>				
Property, plant and equipment	7	788	2,182	2,182
Intangible assets	8	36	77	77
<b>Total non-current assets</b>		<b>824</b>	<b>2,259</b>	<b>2,259</b>
<b>Current assets:</b>				
Trade and other receivables	15	3,684	2,232	2,232
Cash and cash equivalents	14	6,375	3,938	3,938
<b>Total current assets</b>		<b>10,059</b>	<b>6,170</b>	<b>6,170</b>
<b>Total assets</b>		<b>10,883</b>	<b>8,429</b>	<b>8,429</b>
<b>Current liabilities:</b>				
Trade and other payables	16	(13,799)	(9,288)	(12,301)
<b>Total current liabilities</b>		<b>(13,799)</b>	<b>(9,288)</b>	<b>(12,301)</b>
<b>Total assets less current liabilities</b>		<b>(2,916)</b>	<b>(859)</b>	<b>(3,872)</b>
<b>Non-current liabilities</b>				
Provisions	17	(44,903)	(46,530)	(46,530)
<b>Total non-current liabilities</b>		<b>(44,903)</b>	<b>(46,530)</b>	<b>(46,530)</b>
<b>Assets less liabilities</b>		<b>(47,819)</b>	<b>(47,389)</b>	<b>(50,402)</b>
<b>Taxpayers' Equity:</b>				
General Fund		(47,819)	(47,446)	(50,459)
Donated asset reserve		–	57	57
<b>Total taxpayers' equity</b>		<b>(47,819)</b>	<b>(47,389)</b>	<b>(50,402)</b>



**Vivienne Dews**

Former Chief Executive and Accounting Officer

17 June 2014

The notes on pages 82 to 115 form part of these financial statements.

## Statement of Cash Flows for the period ended 31 March 2014

		2013-14	2012-13
	Note	£000	£000
<b>Cash flows from operating activities:</b>			
Net operating cost		(62,128)	(84,863)
Adjustment for non-cash transactions	4,5	759	46,057
(Increase)/decrease in trade and other receivables	15	(1,452)	784
Decrease/(increase) in trade and other payables	16	4,511	(3,769)
Less movements in payables relating to items not passing through the SOCNE		(2,437)	(3,342)
Use of provisions	17	(315)	(5,805)
<b>Net outflow from operating activities</b>		<b>(61,062)</b>	<b>(50,938)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(686)	(343)
Purchase of intangible assets	8	(48)	
<b>Net cash outflow from investing activities</b>		<b>(734)</b>	<b>(343)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund – current year		67,246	51,610
Advance from the Contingencies Fund		35,000	8,800
Repayment to the Contingencies Fund		(35,000)	(8,800)
<b>Net financing</b>		<b>67,246</b>	<b>51,610</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>5,500</b>	<b>329</b>
Payments of amounts due to the Consolidated Fund		(3,013)	–
<b>Net increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>2,437</b>	<b>329</b>
<b>Cash and cash equivalents at the beginning of the period</b>	14	<b>3,938</b>	<b>3,609</b>
<b>Cash and cash equivalents at the end of the period</b>	14	<b>6,375</b>	<b>3,938</b>

The notes on pages 82 to 115 form part of these financial statements.

## Statement of Changes in Taxpayers' Equity for the period ended 31 March 2014

	Note	General Fund	Revaluation Reserve	Donated Asset Reserve	Total Reserves
		£000	£000	£000	£000
<b>Balance at 31 March 2012</b>		<b>(13,891)</b>	<b>4</b>	<b>114</b>	<b>(13,773)</b>
Net Parliamentary Funding – drawn down		51,610	–	–	51,610
Net Parliamentary Funding – deemed		3,609	–	–	3,609
Unspent Supply repayable to the Consolidated Fund		(925)	–	–	(925)
CFERs payable to the Consolidated Fund		(3,013)	–	–	(3,013)
Net operating cost		(84,863)	–	–	(84,863)
<b>Non-cash adjustments:</b>					
Auditor's remuneration	4	80	–	–	80
Actuarial loss		(57)	–	–	(57)
<b>Movement in Reserves:</b>					
Recognised in Statement of Comprehensive Net Expenditure				(57)	(57)
Transfer between reserves		4	(4)	–	–
<b>Balance at 31 March 2013 re-stated</b>		<b>(47,446)</b>	<b>–</b>	<b>57</b>	<b>(47,389)</b>
Net Parliamentary Funding – drawn down		67,246	–	–	67,246
Net Parliamentary Funding – deemed		925	–	–	925
Unspent Supply repayable to the Consolidated Fund		(3,205)	–	–	(3,205)
CFERs payable to the Consolidate Fund		(3,170)	–	–	(3,170)
Net operating cost		(62,128)	–	–	(62,128)
<b>Non-cash adjustments:</b>					
Auditor's remuneration	4	80	–	–	80
Actuarial loss	17.2	(121)	–	–	(121)
<b>Movement in Reserves:</b>					
Recognised in Statement of Comprehensive Net Expenditure	4, 5	–	–	(57)	(57)
<b>Balance at 31 March 2014</b>		<b>(47,819)</b>	<b>–</b>	<b>–</b>	<b>(47,819)</b>

The notes on pages 82 to 115 form part of these financial statements.

# Notes to the Departmental Accounts

## 1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2013-14 *Government Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which was judged to be most appropriate to the particular circumstances of the OFT for the purpose of giving a true and fair view was selected. The particular policies adopted by the OFT are described below. They were applied consistently in dealing with items that were considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also required the OFT to prepare an additional primary statement. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

### 1.1 Going concern

The OFT ceased to exist at the end of March 2014. The bulk of the functions carried out by the OFT moved to the Competition and Markets Authority (CMA). This was regarded as a Machinery of Government move. The OFT's Consumer Credit Licensing function transferred to the Financial Conduct Authority (FCA). The estate agents supervision section of the OFT's Anti-Money Laundering (AML) function transferred to Her Majesty's Revenue and Customs and the remainder of AML's responsibilities transferred to the FCA. In these circumstances it was held that these accounts continue to be produced on a going concern basis.

All property, plant and machinery assets that were not transferred to the CMA were fully depreciated and will be disposed of. The onerous lease liability transferred to the Department for Business, Innovation and Skills on 1 April 2014.

### 1.2 Accounting convention

The accounts have been prepared under the historic cost convention modified to account for the revaluation of property, plant and equipment, and intangible assets.

### 1.3 Property, plant and equipment

Expenditure on property, plant and equipment, including leasehold improvements, which satisfy the OFT's capitalisation criteria, including the threshold of £5,000, was capitalised at cost in the month of purchase. Grouping of assets which would otherwise fall below the OFT's capitalisation threshold,

was only permitted where omission would have a significant impact on the true and fair status of the accounts. All property, plant and equipment was reviewed annually for impairment and was carried at fair value. All non-property operational assets were deemed to be short-life or low-value assets and were, therefore, valued on the basis of depreciated replacement cost as an approximation of fair value.

**1.4 Donated assets**

Donated tangible assets were capitalised at their current value on receipt and this value was credited to the Donated Asset Reserve. Each year, an amount equal to the depreciation charge on the asset was released from the Donated Asset Reserve to the operating cost statement.

**1.5 Intangible non-current assets**

Purchased software licences were capitalised as intangible non-current assets where expenditure of £5,000 or more was incurred. Software licences were amortised over the shorter of the term of the licence and the useful economic life.

**1.6 Depreciation**

Property, plant and equipment were depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives.

Asset lives were normally in the following ranges:

- Furniture, fixtures and fittings – 7 to 10 years
- IT Hardware – 3 to 5 years
- Software – 5 to 12 years
- Software licenses – 4 to 10 years
- Leasehold improvements – amortised over the term of the lease

Due to the cessation of operations by the OFT, the usefulness of all assets was reviewed. Where it was decided that an asset would not be transferred to another organisation the life of the asset was amended during the year to accelerate its depreciation in order to bring it down to a nil net book value by 31 March 2014.

## **1.7 Research and development**

Expenditure on research was charged to the Statement of Comprehensive Net Expenditure as incurred. Expenditure on development in connection with a product or service which was to be supplied on a full cost recovery basis was capitalised if it met the criteria specified in IAS 38. Other development expenditure was capitalised if it met the criteria specified in the FReM which are adapted from IAS 38 to take account of the not-for-profit context. Expenditure which did not meet the criteria for capitalisation was charged to the Statement of Comprehensive Net Expenditure as it was incurred.

## **1.8 Operating income**

Operating income is income which relates directly to the operating activities of the OFT. It principally comprises fees and charges to external customers under the Consumer Credit Act 1974 and Money Laundering Regulations 2007. It includes both income appropriated in aid of the Estimate and due to the Consolidated Fund, known as Consolidated Fund Extra Receipts (CFERs), which in accordance with the FReM is treated as operating income. CFERs occur when OFT receives income which exceeds the amount it is allowed to retain as a result of the Estimate process, or which is outside its Ambit or is in respect of a prior financial year transaction.

Income was analysed in the notes between that which, under the administration cost-control regime, was allowed to be offset against gross administration costs in determining the outturn against the administration cost limit, and that which was not.

Anti-Money Laundering income received which related to services not carried out by the end of the financial year, was moved to the Statement of Financial Position as deferred income to be transferred to HM Revenue and Customs as part of the transfer of functions.

Voted funding for the Credit Licence Rebate Scheme was passed to the Financial conduct Authority upon receipt and the cost was reported within note 5 as a separate item.

## **1.9 Foreign exchange**

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rates ruling at the dates of the transactions.

## **1.10 Financing**

The OFT is primarily resourced by funds approved by Parliament through the annual Appropriation Act. Resources are drawn down each month to meet expenditure requirements and are credited to the General Fund. Some of the

OFT's resource requirement is met by charging fees for certain activities, such as the issuing of Credit Licences and Anti-Money Laundering registrations. The level of income that can be used in support of the OFT's activities (Appropriations in Aid) is approved by Parliament in the Supply and Appropriation Act.

### **1.11 Trade receivables**

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the OFT will not be able to collect all amounts due according to the original terms of the receivables.

### **1.12 Staff costs**

Under IAS19 Employee Benefits legislation, all staff costs must be recorded as an expense as soon as the organisation has an obligation to pay them. This includes the cost of any untaken leave as at the year end.

### **1.13 Pensions**

Most past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described at Note 3. The OFT recognised the expected pension cost on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the OFT recognises the contributions payable for the year.

The OFT has a separate scheme for the previous Chairman and Directors General, which is 'by analogy', or similar to, the PCSPS. Provision has been made for the future cost of benefits under this scheme. The current Chairman and the other non-executive Board members are not members of the PCSPS and do not receive pension benefits from the OFT.

### **1.14 Early departure costs**

The OFT is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The OFT provides in full for the costs when early retirement for an individual is agreed and takes effect. Details of early exit packages are disclosed in the tables at note 3.3.

## 1.15 Provisions

The OFT provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rates set by HM Treasury; where it is not significant estimated cash flows are not discounted. The rates in force at 31 March 2014 are:

Rate	Real rate
Short-term (up to 5 years)	-1.90%
Medium-term (over 5 years up to 10 years)	-0.65%
Long-term (in excess of 10 years)	2.20%

Financing charges in the Statement of Comprehensive Net Expenditure in respect of end of lease provisions will include adjustments to amortise one year's discount rate and restate liabilities to current price levels.

## 1.16 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the OFT discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

Where the time value of money is material, contingent liabilities required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

## 1.17 Value Added Tax (VAT)

Most of the OFT's activities are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase costs of non-current assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

## 1.18 Operating leases

Operating lease rentals are charged to the Statement of Comprehensive Net Expenditure in equal amounts over the lease term.

## **1.19 Financial Instruments**

OFT does not hold any complex financial instruments. The only financial instruments included in the accounts are receivables and payables (Notes 15 and 16). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when there is evidence that the OFT will be unable to collect an amounts due in accordance with agreed terms.

## **1.20 Impending application of newly issued accounting standards not yet effective**

In accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, OFT provides disclosure that it has not yet applied:

IFRS 9 – Financial Instruments

IFRS 10 – Consolidated Financial Statements

IFRS 11 – Joint Arrangements

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 13 – Fair Value Measurement

IAS 27 – Separate Financial Statements

IAS 28 – Investments in Associates and Joint Ventures.

These standards are currently not applicable within government departments.

## **1.21 Administration and Programme costs**

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. Programme costs reflect the cost of delivering OFT's core activities, or 'front line' services and programme income reflects fees and other income generated through those core services. Administration costs reflect the costs of running the department, including statutory reporting and those associated with supporting front line activities, such as legal advice and communications. Administration income reflects an attribution of income from programme to cover middle office and back office costs directly attributable to chargeable front line services.

All property, plant and machinery assets that were not transferred to the CMA were fully depreciated and will be disposed of.

## **1.22 Re-statement of prior period**

In 2012-13 excess income repayable to the Consolidated Fund was incorrectly reported in the published accounts and the comparative figures have been re-stated where applicable. The error and the re-statement have no impact on net expenditure and the re-statement applies to the following items:

Statement of Financial Position

Statement of Changes in Taxpayers' Equity

Note 16 – Trade Payables and Other Current Liabilities.

## 2 Statement of Operating Costs by Operating Segment

### 2.1 Analysis by operating segment

OFT recognised three reportable segments within the accounts:

Consumer Credit Group and Anti-Money Laundering (CCG/AML) were self-funding activities. Their financial objective was to recover their costs, including attributed central overheads, through the levying of fees. Where CCG/AML costs were not chargeable to fees but were borne by the OFT, such costs are included in the CCG/AML figures in the table below but are included in the Fees and Charges table (note 6.2). CCG was responsible for administering the Consumer Credit Act 1974. This included all aspects of the credit licensing regime, casework and other initiatives to achieve compliance with the Act and to ensure consumers are not harmed. AML supervised estate agents and non-FSA authorised consumer credit lenders under the Money Laundering Regulations 2007.

The OFT's other non-fee earning frontline services were split into two market-oriented groups: Services, Infrastructure and Public Markets, and Mergers (SIPM) and Goods and Consumer, and Cartels and Criminal Enforcement (GC&CCE). Funding for these two segments was an allocation of OFT's budget according to their relevant needs.

The method for allocating non-frontline costs to the three reportable segments was consistent year-on-year.

	2013-14			2012-13		
	Expenditure £000	Income £000	Net £000	Expenditure £000	Income £000	Net £000
CCG/AML	11,241	(14,386)	(3,145)	11,477	(14,399)	(2,922)
SIPM	15,595	–	15,595	18,454	–	18,454
GC&CCE	19,925	–	19,925	25,821	–	25,821
Totals	46,761	(14,386)	32,375	55,752	(14,399)	41,353

## 2.2 Reconciliation between Operating Segments and Statement of Comprehensive Net Expenditure

There are three items that have not been included within the Operating Segments analysis above: provision for an onerous lease and the Credit Licence Rebate Scheme both of which would distort the figures considerably; miscellaneous income attributable to back office and middle office functions.

	2013-14			2012-13		
	Expenditure	Income	Net	Expenditure	Income	Net
	£000	£000	£000	£000	£000	£000
Totals as per table above	46,761	(14,386)	32,375	55,752	(14,399)	41,353
Provision for onerous lease	–	–	–	43,657	–	43,657
Credit Licence Rebate Scheme	30,000	–	30,000	–	–	–
Miscellaneous income	–	(247)	(247)	–	(147)	(147)
Totals as per Statement of Comprehensive Net Expenditure	76,761	(14,633)	62,128	99,409	(14,546)	84,863

The cost of the Credit Licence Rebate Scheme has been omitted from the segmental analysis table and reported solely in the reconciliation as to include it would have seriously distorted the figures on comparison. Funding for the scheme, as decided by HM Government ministers, was received from HM Treasury in December 2013 and passed on immediately to the Financial Conduct Authority. The cost had to be included within these accounts since the funding was made available via the Parliamentary Vote.

## 2.3 Reconciliation between Operating Segments and Note 2

The adjustments shown in note 2.1 also apply here.

### 3 Staff numbers and related costs

#### 3.1 Staff costs

Staff costs comprised:

	2013-14		2012-13	
	Total	Permanently employed staff	Others	Total
	£000	£000	£000	£000
Wages and salaries	27,929	23,248	4,681	29,505
Social security costs	2,178	2,178	–	2,287
Pension costs	4,599	4,599	–	4,914
<b>Sub-total</b>	<b>34,706</b>	<b>30,025</b>	<b>4,681</b>	<b>36,706</b>
Other staff costs	2,606	2,606	–	220
Less recovery of redundancy costs from BIS	(2,187)	(2,187)	–	–
Less recoveries in respect of outward secondments	(375)	(375)	–	(232)
<b>Total net costs*</b>	<b>34,750</b>	<b>30,069</b>	<b>4,681</b>	<b>36,694</b>
<b>Of which:</b>				
<b>Charged to administrative costs</b>	<b>6,487</b>	<b>5,061</b>	<b>1,426</b>	<b>7,716</b>
<b>Charged to programme expenditure</b>	<b>28,263</b>	<b>25,008</b>	<b>3,255</b>	<b>28,978</b>
<b>Total</b>	<b>34,750</b>	<b>30,069</b>	<b>4,681</b>	<b>36,694</b>

\* Of the total, £nil was charged to capital.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but OFT was unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007 and details can be found in the accounts of the Cabinet Office: Civil superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

For 2013-14, employer contributions of £4,574,006 were payable to the PCSPS (2012-13: £4,835,083) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2013-14 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer’s contributions of £87,984 (2012-13: £73,520) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £6,217, 0.8 per cent (2012-13: £5,665, 0.8 per cent) of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil (2012-13: nil). Employer contributions prepaid at that date were nil (2012-13: nil).

**3.2 Number of persons employed**

The average number of whole-time equivalent persons employed during the year was as follows:

	2013-14			2012-13
	Total	Permanent staff	Others	Total
Goods and Consumer, and Cartels and Criminal Enforcement Protection	142	129	13	151
Credit Licensing and Anti-Money Laundering	145	102	43	144
Services, Infrastructure and Public Markets, and Mergers	114	106	8	112
Professional Support*	118	108	10	128
Back Office**	122	85	37	116
<b>Total</b>	<b>641</b>	<b>530</b>	<b>111</b>	<b>651</b>

\* Professional Support includes: legal services, economists, communications and policy.

\*\*Back Office includes: finance, enquiries and reporting centre, human resources, procurement, IT and facilities management.

### 3.3 Reporting of Civil Service exit packages

Exit package cost band	2013-14			2012-13		
	Compulsory redundancies	Other departure	Total departures	Compulsory redundancies	Other departure	Total departures
	Number	Number	Number	Number	Number	Number
<£10,000	–	2	2	–	–	–
£10,000 – £25,000	1	16	17	–	–	–
£25,000 – £50,000	8	12	20	–	–	–
£50,000 – £100,000	1	14	15	–	–	–
£100,000 – £150,000	–	1	1	–	–	–
Total number of exit packages by type	10	45	55	–	–	–
Total cost of exit packages by type (£000)	398	1,726	2,124	–	–	–

Redundancy and other departure costs were paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs were accounted for in full in the year of departure. Where OFT agreed early retirements, the additional costs were met by OFT and not by the Civil Service pension scheme. Ill-health retirement costs were met by the pension scheme and would not have been included in the table if they had occurred. There were no retirements on the grounds of ill-health in 2013-14 (2012-13: nil).

### 3.4 Review of tax arrangements of public sector appointees

As part of the *Review of Tax Arrangements of Public Sector Appointees* published by the Government in May 2012, the OFT was required to publish information in relation to the number of off-payroll engagements at an annual cost in excess of £58,200. There were no new engagements during the year which required disclosure under the guidance given.

## 4 Other Administration Costs

	2013-14		2012-13	
	£000	£000	£000	£000
<b>Premises costs:</b>				
Rent (operating lease)	4,150		3,983	
Rates	1,255		1,234	
Utilities	456		441	
Maintenance	457		370	
Other premises costs	393		414	
Recovery of costs from sub-tenants	(2,114)		(1,680)	
<b>Net premises costs</b>		<b>4,597</b>		<b>4,762</b>
Research expenditure		<b>53</b>		<b>52</b>
<b>Other expenditure:</b>				
Hire of plant and machinery (operating leases)	130		168	
Professional services	93		54	
Training	365		456	
Publicity and campaigns	23		42	
Travel and subsistence	40		51	
Recruitment	120		251	
Telecoms	460		381	
IT (including maintenance)	1,515		1,643	
Printing, copying and mailing	252		197	
Other expenditure	464		373	
<b>Total other expenditure</b>		<b>3,462</b>		<b>3,616</b>
<b>Non-cash items:</b>				
Depreciation – property, plant and equipment (note 7)	206		142	
Depreciation – Intangible assets (note 8)	9		7	
Released from the donated asset reserve	(6)		(6)	
Auditor’s remuneration and expenses	80		80	
<b>Total non-cash costs</b>		<b>289</b>		<b>223</b>
		<b>8,401</b>		<b>8,653</b>

The auditor’s remuneration and expenses reflects the notional fee for the NAO statutory audit, which comprised two elements: the accounts audit fee of £68,000 (2012-13: £68,000), which included the audit of the Whole of Government Accounts return, and the audit fee for the audit of the Trust Statement (published as an annexe to this document) of £12,000 (2012-13: £12,000). The OFT did not purchase any non-audit services.

Premises costs included the full cost to OFT less amounts recharged to sub-tenants. All sub-tenants were government bodies leasing space at Fleetbank House under Memorandum of Terms of Occupation (MOTO) arrangements, therefore the receipts were treated as recovery of costs, not as income.

## 5 Programme Costs

	2013-14		2012-13	
	£000	£000	£000	£000
<b>Other expenditure:</b>				
Credit Licence Rebate Scheme	30,000			
Litigation costs	714		4,985	
Professional services	670		831	
Publicity and campaigns	7		302	
Travel and subsistence	237		347	
IT (including maintenance)	950		809	
Publications	182		245	
Other expenditure	380		709	
<b>Total other expenditure</b>		<b>33,140</b>		<b>8,228</b>
<b>Non-cash items:</b>				
Depreciation – property, plant and equipment (note 7)	1,874		1,281	
Depreciation – Intangible assets (note 8)	80		64	
Released from the donated asset reserve	(51)		(51)	
Provisions – amounts provided for in year	256		44,540	
Provisions – amounts not required written back	(1,689)		–	
<b>Total non-cash costs</b>		<b>470</b>		<b>45,834</b>
		<b>33,610</b>		<b>54,062</b>

### Credit Licence Rebate Scheme

OFT consumer credit licences were valid for five years. HM Government Ministers decided that licensees who had obtained a licence within five years of the OFT's closure should be entitled to a refund of the unexpired portion of their licence. The refunds were paid by the Financial Conduct Authority (FCA). The figure above reflects the amount that was Voted to the OFT following a claim on the Reserve for this purpose and then transferred to the FCA on 23 December 2013 in order to meet this requirement.

## 6 Income

### 6.1 Analysis of income

	2013-14	2012-13
	£000	£000
Fees for the administration of the Consumer Credit Act 1974	13,287	13,366
Fees for the administration of Money Laundering Regulations 2007	1,100	1,033
Appeal costs reimbursed	216	126
Other income	30	21
<b>Total income</b>	<b>14,633</b>	<b>14,546</b>
Less: income payable to the Consolidated Fund	(3,170)	(3,013)
<b>Total Appropriations-in-Aid</b>	<b>11,463</b>	<b>11,533</b>
<b>Of total income:</b>		
<b>Administration income</b>	<b>4,242</b>	<b>4,486</b>
<b>Programme income</b>	<b>10,391</b>	<b>10,060</b>
	<b>14,633</b>	<b>14,546</b>

In addition to the income shown above, OFT collects fees on behalf of, and pays them over to, the Financial Ombudsman Service. The amount collected in 2013-14 was £1,727,080 (2012-13: £1,676,020). OFT is able to retain a small administration charge for each fee collected and this is included in other income in the table above. The amount retained in 2013-14 was £66,550 (2012-13: £53,425).

## 6.2 Fees and charges

The OFT is required, in accordance with HM Treasury's *Managing Public Money*, to disclose results for the areas of its activities where fees and charges were made. The following analysis is not intended to meet the requirements of IFRS 8 – Operating Segments.

### 2013-14

	Gross cost	Income	(Surplus)/ shortfall	Actual recovery	Target recovery
	£000	£000	£000	%	%
Consumer Credit Licensing	10,117	(13,287)	(3,170)	131.3	100.0
Anti-Money Laundering	1,107	(1,100)	7	99.4	95.0

The gross cost for Consumer Credit Licensing shown above does not include £17k of costs which are not chargeable against fees, whereas the table at note 2.1 does. Income generated in excess of gross costs is surrendered to the Consolidated Fund and not carried forward to the Competition and Markets Authority or the Financial Conduct Authority (see note 1.1).

### 2012-13

	Gross cost	Income	(Surplus)/ shortfall	Actual recovery	Target recovery
	£000	£000	£000	%	%
Consumer Credit Licensing	10,369	(13,366)	(2,997)	128.9	100.0
Anti-Money Laundering	1,108	(1,017)	91	91.8	95.0

## 7 Property, plant and equipment

### Current year:

	Leasehold Improvements	Information Technology	Furniture and Fittings	Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or valuation:					
At 1 April 2013	414	11,535	125	–	12,074
Additions	–	–	–	686	686
Disposals	–	–	–	–	–
<b>At 31 March 2014</b>	<b>414</b>	<b>11,535</b>	<b>125</b>	<b>686</b>	<b>12,760</b>
Depreciation:					
At 1 April 2013	185	9,594	113	–	9,892
Charged in year	229	1,839	12	–	2,080
Disposals	–	–	–	–	–
<b>At 31 March 2014</b>	<b>414</b>	<b>11,433</b>	<b>125</b>	<b>–</b>	<b>11,972</b>
<b>Carrying amount at 31 March 2014</b>	<b>–</b>	<b>102</b>	<b>–</b>	<b>686</b>	<b>788</b>
<b>Carrying amount at 31 March 2013</b>	<b>229</b>	<b>1,941</b>	<b>12</b>	<b>–</b>	<b>2,182</b>

The asset under construction is an Electronic Document and Records Management System (EDRMS) which was transferred to the CMA on 1 April.

### Prior year:

	Leasehold Improvements	Information Technology	Furniture and Fittings	Total
	£000	£000	£000	£000
Cost or valuation:				
At 1 April 2012	281	11,334	606	12,221
Additions	133	201	9	343
Disposals	–	–	(490)	(490)
<b>At 31 March 2013</b>	<b>414</b>	<b>11,535</b>	<b>125</b>	<b>12,074</b>
Depreciation:				
At 1 April 2012	23	8,342	594	8,959
Charged in year	162	1,252	9	1,423
Disposals	–	–	(490)	(490)
<b>At 31 March 2013</b>	<b>185</b>	<b>9,594</b>	<b>113</b>	<b>9,892</b>
<b>Carrying amount at 31 March 2013</b>	<b>229</b>	<b>1,941</b>	<b>12</b>	<b>2,182</b>
<b>Carrying amount at 31 March 2012</b>	<b>258</b>	<b>2,993</b>	<b>12</b>	<b>3,263</b>

## Asset financing

All assets were owned by the OFT. The leasehold improvements related to costs incurred in making alterations to Fleetbank House, which was occupied via an operating lease and which was fully depreciated by 31 March 2014 when responsibility for management of the building transferred to the Department for Business, Innovation and Skills.

## 8 Intangible Assets

### Current year:

	Software Licences
	£000
Cost or valuation:	
At 1 April 2013	491
Additions	48
Disposals	–
<b>At 31 March 2014</b>	<b>539</b>
Amortisation:	
At 1 April 2013	414
Charged in year	89
Disposals	–
<b>At 31 March 2014</b>	<b>503</b>
<b>Carrying amount at 31 March 2014</b>	<b>36</b>
<b>Carrying amount at 31 March 2013</b>	<b>77</b>

### Prior year:

	Software Licences
	£000
Cost or valuation:	
At 1 April 2012	491
Additions	–
Disposals	–
<b>At 31 March 2013</b>	<b>491</b>
Amortisation:	
At 1 April 2012	343
Charged in year	71
Disposals	–
<b>At 31 March 2013</b>	<b>414</b>
<b>Carrying amount at 31 March 2013</b>	<b>77</b>
<b>Carrying amount at 31 March 2012</b>	<b>148</b>

## 9 Impairments

Apart from the EDRMS asset under construction (see note 7) only a few other IT hardware assets and one software licence transferred to the CMA. All other plant, property and equipment had either reached its natural fully-depreciated state or had its depreciation accelerated to bring it down to a nil net book value by 31 March 2014. Some of these items have been transferred to the CMA, where they will be maintained on the CMA's inventory register.

## 10 Capital and other commitments

### 10.1 Capital commitments

	2013-14	2012-13
	£000	£000
Contracted capital commitments at 31 March 2013 not otherwise included in these financial statements:		
Property, plant and equipment	–	123

### 10.2 Commitments under operating leases

	2013-14		2012-13	
	Buildings	Other	Buildings	Other
	£000	£000	£000	£000
At 31 March 2014 obligations under operating leases for the following periods comprise:				
Not later than one year	4,145	–	4,054	6
Later than one year and not later than five years	17,535	–	17,149	17
Later than five years	21,671	–	26,202	–
<b>Total</b>	<b>43,351</b>	<b>–</b>	<b>47,405</b>	<b>23</b>

The commitment for buildings is the undiscounted gross cost of rent payable, before deduction of sub-tenant receipts and will, therefore, not match the figure included for an onerous lease (see note 17.3). The financial commitment on the lease transferred to the Department for Business, Innovation and Skills on 1 April 2014.

### 10.3 Finance leases

The OFT does not have any finance lease commitments.

### 10.4 Other financial commitments

The department has no non-cancellable contracts (which are not leases or PFI contracts).

## 11 Financial Instruments

As the cash requirements of the OFT are met through the Estimate process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the OFT's expected purchase and usage requirements and the OFT is, therefore, exposed to little credit, liquidity or market risk. However, any liabilities not included in these statements are the responsibility of the CMA.

## 12 Investments in other public sector bodies

OFT does not hold any investments in other public sector bodies.

## 13 Inventories

OFT does not hold any inventories where values are recorded in the financial statements.

## 14 Cash and cash equivalents

	2013-14	2012-13
	£000	£000
Balance at 1 April	3,938	3,609
Net change in cash balances	2,437	329
<b>Balance at 31 March</b>	<b>6,375</b>	<b>3,938</b>

### The following balances at 31 March were held at:

Government Banking Service	6,374	3,613
Cash in hand and locally banked receipts	1	325
<b>Balance at 31 March</b>	<b>6,375</b>	<b>3,938</b>

The bank balance is shown net of outstanding liabilities for instruments of payment due to be encashed against OFT's bank account.

## 15 Trade receivables and other current assets

### 15.1 Analysis by type

	2013-14	2012-13
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade receivables	3,066	342
Deposits and advances	99	162
Other receivables	1	12
VAT	365	246
Prepayments and accrued income	153	1,470
<b>Total</b>	<b>3,684</b>	<b>2,232</b>

### 15.2 Intra-Government balances

	Amounts falling due within one year	
	2013-14	2012-13
	£000	£000
Balances with other central government bodies	3,201	485
Balances with local authorities	–	–
Balances with public corporations and trading funds	–	–
<b>Sub-total intra-government balances</b>	<b>3,201</b>	<b>485</b>
Balances with bodies external to government	483	1,747
<b>Total</b>	<b>3,684</b>	<b>2,232</b>

## 16 Trade payables and other current liabilities

### 16.1 Analysis by type

	2013-14	2012-13	2012-13
	£000	re-stated £000	£000
<b>Amounts falling due within one year</b>			
Taxation and social security	767	689	689
Trade payables	388	973	973
Other payables	1,441	1,873	1,873
Accruals and deferred income	4,828	1,815	1,815
Amounts issued from the Consolidated Fund for Supply but not spent at 31 March 2014	3,205	925	3,938
Other amounts due to the Consolidated Fund	3,170	3,013	3,013
<b>Total</b>	<b>13,799</b>	<b>9,288</b>	<b>12,301</b>

## 16.2 Intra-Government balances

	Amounts falling due within one year		
	2013-14	2012-13 re-stated	2012-13
	£000	£000	£000
Balances with other central government bodies	8,080	5,698	8,711
Balances with local authorities	–	410	410
Balances with public corporations and trading funds	–	–	–
<b>Sub-total intra-government balances</b>	<b>8,080</b>	<b>6,108</b>	<b>9,121</b>
Balances with bodies external to government	5,719	3,180	3,180
<b>Total</b>	<b>13,799</b>	<b>9,288</b>	<b>12,301</b>

## 16.3 Deferred income

Monies received for which the work had yet to be undertaken at the year-end are shown below:

	2013-14	2012-13
	£000	£000
Fees for administration	9	483
Other income received in advance	872	34
<b>Total deferred income</b>	<b>881</b>	<b>517</b>

Other income received in advance relates to funding from the Department for Business, Innovation and Skills for costs associated with the transition from the OFT to the CMA and other organisations. For operational reasons some of the activities funded in this way were not carried out before 31 March 2014, hence the need to defer the income. There is also a small amount of income received before the year-end which is to be transferred to HM Revenue and Customs for work yet to be carried out under Money Laundering Regulations 2007.

## 17 Provisions for liabilities and charges

	Early Departure Provision	Pension Provision	Onerous Lease Provision	Other Provision	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2013	584	1,619	43,657	670	46,530
Provided in year	192	64	–	–	256
Actuarial loss	–	121	–	–	121
Unwanted provision written-back	–	–	(1,019)	(670)	(1,689)
Provisions utilised in year	(218)	(97)	–	–	(315)
<b>Balance at 31 March 2014</b>	<b>558</b>	<b>1,707</b>	<b>42,638</b>	<b>–</b>	<b>44,903</b>

### Analysis of expected timing of cash flows

	Early Departure Provision	Pension Provision	Onerous Lease Provision	Other Provision	Total
	£000	£000	£000	£000	£000
Not later than one year	203	97	3,782	–	4,082
Later than one year and not later than five years	331	388	38,856	–	39,575
Later than five years	24	1,222	–	–	1,246
<b>Balance at 31 March 2014</b>	<b>558</b>	<b>1,707</b>	<b>42,638</b>	<b>–</b>	<b>44,903</b>

#### 17.1 Early Departure Provision

The OFT meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The OFT provides for this in full when the early retirement programme becomes binding, by establishing a provision for the estimated payments. There were three new early retirees during the year (2012-13: nil).

#### 17.2 Pension Provision

The pension provision is unfunded, with benefits being paid as they fall due and guaranteed by OFT for the previous Chairman and Directors General. There is no fund and therefore no surplus or deficit. An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2014.

The financial assumptions used in the calculation of the liability as at 31 March 2014 are as follows:

- The gross rate of increase in salaries is 4.5 per cent per annum (2012-13: 3.95 per cent per annum)
- The gross rate used to discount scheme liabilities is 4.35 per cent per annum (2012-13: 4.10 per cent per annum)
- The gross rate of increase for pensions in payment and deferred pensions is 2.0 per cent per annum, (2012-13: 1.70 per cent per annum)
- In nominal terms, these assumptions imply price inflation of 2.0 per cent per annum (2012-13: 1.70 per cent per annum)

Other amounts to be disclosed in order to understand the change in provision:

	£000
– Overnight increase in liabilities (change in real return)	–
– Current service cost (net of employee contributions)	–
– Employee contributions	–
– Interest cost	64
– Past service cost	–
– Actuarial loss	121
	185
– Benefits paid	(97)
Increase in provision	88

### 17.3 Onerous Lease Provision

The OFT vacated Fleetbank House at the end of March 2014. As there is the potential for the building to not be re-let and the lease runs until September 2023, the OFT recognised the lease as being onerous. The provision represents the discounted net cost (rent, rates and utilities) payable from 1 April 2014 until the current lease is determined in September 2023 (see note 1.15 for discount rates used). Net cost is the total after deducting rent, rates and utilities receipts from sub-tenants in so far as they are fixed. The Department for Business, Innovation and Skills (BIS) took on responsibility for the lease with effect from 1 April 2014 at which date this liability was transferred to BIS.

### 17.4 Other provisions

The provision brought forward was not required and consequently written-back as unwanted. The provision had been included at the end of 2012-13 for potential legal costs relating to past Competition Act 1998 cases and a possible VAT penalty.

## **18 Contingent liabilities disclosed under IAS 37**

Where appeals are made against OFT decisions there is a possibility of a transfer of economic benefits to third parties. Information required under IAS 37 is not disclosed on the grounds that it may prejudice the outcome of negotiations.

## **19 Losses and Special Payments**

*Managing Public Money* requires a statement showing losses and special payments by value and by type to be shown where they exceed £250,000 in total and those that individually exceed £250,000.

In 2013-14 there were no cases in excess of £250,000 (2012-13: nil).

### **19.1 Losses statement**

The OFT recognised losses in 2013-14 with a total value of 23,981 (2012-13: nil). These were uncollectable book debts due from non-government organisations, where it was deemed not cost-effective to pursue further.

### **19.2 Special payments**

There were no special payments in 2013-14 (2012-13: nil).

## **20 Financial Guarantees, Indemnities and Letters of Comfort**

The OFT has not entered into any Financial Guarantees and Indemnities, or provided Letters of Comfort. However, on 11 March 2002 the entity then known as the Department for Trade and Industry issued a personal liability indemnity to the OFT Chairman and Board Members. Parliament approved the Minute which gives the Chairman and Board Members of the OFT the equivalent indemnity to that given to civil servants under the Civil Service Management Code. Therefore, the Crown accepted responsibility for the personal civil liabilities, including costs, of the Chairman and other Board Members.

## **21 Related-party transactions**

The OFT had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Department for Business, Innovation and Skills, HM Courts and Tribunals Service and Consumer Focus. None of the Board Members, key managerial staff or other related parties has undertaken any material transactions with the OFT during the year.

## **22 Events after the reporting period**

In accordance with the requirements of IAS 10 – Events after the Reporting Period, post balance sheet 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. The financial statements do not reflect events after this date.

## **14 TRUST STATEMENT**

### **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Office of Fair Trading Trust Statement for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

#### **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Office of Fair Trading Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office of Fair Trading; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## **Opinion on regularity**

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

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office of Fair Trading Trust Statement as at 31 March 2014 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## **Opinion on other matters**

In my opinion:

- the information given in “The Board”, “Supporting Transition”, “Enforcement”, “Consumer Credit and Anti-Money Laundering Regulation”, “Mergers and Markets”, “Influencing and Collaboration”, “Organisational Delivery and Capability”, “Impact Indicators and Evaluation”, “Sustainability report” and the “Operating and Financial Review” for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury’s guidance.

## **Report**

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**                      **18 June 2014**

Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

**Statement of Revenue, Other Income and Expenditure for the year ended  
31 March 2014**

	2013-14	2012-13
Note	£000	£000
<b>INCOME:</b>		
<b>Fines and penalties:</b>		
Penalties imposed under the Competition Act 1998	3,332	64,733
<b>Other income:</b>		
Fees received under the Enterprise Act 2002	3,680	4,410
<b>TOTAL REVENUE FOR THE YEAR</b>	<b>7,012</b>	<b>69,143</b>
<b>EXPENDITURE:</b>		
Debts written off or otherwise impaired	2,522	(108)
<b>Net revenue for the Consolidated Fund</b>	<b>9,534</b>	<b>69,251</b>

There were no recognised gains or losses accounted for outside the above Statement of Revenue. See note 1.21 in the main OFT Accounts for an explanation regarding going concern status.

Impairment provisions were made when it was deemed unlikely that a debt would be recovered. However, if such a debt was recovered the impairment provision was reversed, leading to a negative position, as shown above.

The notes on pages 122 to 125 form part of these accounts.

## Statement of Financial Position as at 31 March 2014

		31 March 2014	31 March 2013
	Note	£000	£000
Receivables falling due after more than one year	2.1	–	–
<b>Current assets:</b>			
Receivables	2.2	1,537	355
Accrued fees and penalties	2.2	640	370
Cash at bank and in hand	3	–	460
<b>Total current assets</b>		<b>2,177</b>	<b>1,185</b>
<b>Current liabilities:</b>			
Payables	4	–	–
<b>Total current liabilities</b>		<b>–</b>	<b>–</b>
<b>Total assets less current liabilities</b>		<b>2,177</b>	<b>1,185</b>
<b>Represented by:</b>			
Balance on Consolidated Fund Account	5	2,177	1,185



**Vivienne Dews**  
Former Chief Executive and Accounting Officer

17 June 2014

The notes on pages 122 to 125 form part of these accounts.

## Statement of Cash Flows for the year ended 31 March 2014

		2013-14	2012-13
	Note	£000	£000
Net cash flow from operating activities	A below	(8,082)	(72,464)
Amounts paid to the Consolidated Fund	5	8,542	72,004
(Decrease)/increase in cash in the period		(460)	460

### Note to the Cash Flow Statement

A: Reconciliation of Net Cash flow to Movement in Net Funds	2013-14	2012-13
Net revenue for the Consolidated Fund	(9,534)	(69,251)
Decrease in non-cash assets	1,452	(3,213)
Decrease in current liabilities	–	–
<b>Net cash flow from operating activities</b>	<b>(8,082)</b>	<b>(72,464)</b>

B: Analysis of Changes in Net Funds	2013-14	2012-13
Increase/(decrease) in cash in the period	(460)	460
Net funds at 1 April (Net cash at bank)	460	–
<b>Net funds at 31 March (Closing balance)</b>	<b>–</b>	<b>460</b>

The notes on pages 122 to 125 form part of these accounts.

## **Notes to the Trust Statement**

### **1 Statement of accounting policies**

#### **1.1 Basis of accounting**

The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under section 7 of the Government Resource and Accounts Act 2000 and the accounting policies detailed below. The policies have been developed with reference to International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector, and other relevant guidance. They have been applied consistently in dealing with items that are considered material to the accounts.

The income contained in the Trust Statement is that flow of funds which OFT handles on behalf of the Consolidated Fund and where it is acting as agent rather than principal.

The financial information contained in the statements is rounded to the nearest £000.

#### **1.2 Accounting convention**

The Trust Statement has been prepared in accordance with the historic cost convention.

#### **1.3 Revenue recognition**

Fees and penalties were measured in accordance with IAS 18. They were measured at the fair value of amounts received or receivable net of repayments.

For merger fees, if an anticipated merger was notified by way of a statutory merger notice the fee was recognised when the OFT had investigated the intended merger and issued its decision. Until then it was treated as deferred income, as the fee would have been refundable if the merger did not meet the required criteria. In all other merger cases income was recognised when the decision was reached and accrued where necessary.

For CA98 penalties, when a penalty was imposed and a Decision Letter was sent out the entity concerned was given two calendar months in which to appeal the decision if it chose. However, the full value of the penalty was recognised as a valid debt as soon as the Decision Letter was issued.

## **1.4 Impairment of receivables**

A review is made annually of all outstanding CA98 Penalties receivables, to determine recoverability and a provision is set up in the event that recovery of the receivable is in doubt. The provision serves to reduce the receivable in the Statement of Financial Position, but also reduces the Balance on Consolidated Fund Account. The creation of this provision and any subsequent movement, or any write-offs which have not been previously provided for, register in the Statement of Income and Expenditure.

If a party has been offered the option to pay their penalty by instalments and subsequently defaults on their payments for any reason, for example if they enter Administration, every step is taken to pursue the debt. However, an impairment provision is created for any outstanding balance and maintained until such time as the recovery process has been completed, at which time any unused provision is released. This also applies where a penalty is imposed on a party that has already entered Administration, or does so before payment of the penalty can be made.

## **1.5 Receivables**

Receivables are shown net of impairments in accordance with the requirements of IAS 39.

## **1.6 Value Added Tax (VAT)**

Merger fees and CA98 Penalties are outside the scope of VAT.

## **2 Receivables**

### **2.1 Non-current receivables**

There are no amounts falling due after one year (2012-13: nil)

## 2.2 Current receivables

	2013-14	2012-13
	£000	£000
<b>Amounts falling due within one year:</b>		
Competition Act 1998 penalties	11,689	13,809
Less provision for impairment	(10,152)	(13,454)
Net Competition Act 1998 penalties	1,537	355
Accrued income – merger fees	640	370
<b>Total</b>	<b>2,177</b>	<b>725</b>

The provision for impairment covers amounts due from companies involved in CA98 cases that are in Administration. Whilst every effort is made to recover these debts, due to the uncertain nature of company liquidations provision is made for the full amount of the debt at the time the company enters Administration.

## 3 Cash at bank and in hand

	2013-14	2012-13
	£000	£000
Balance held at Government Banking Service at 1 April	460	–
Net change in cash balances	(460)	460
<b>Balance held at Government Banking Service 31 March</b>	<b>–</b>	<b>460</b>

## 4 Current payables

There are no current payables (2012-13: nil).

## 5 Balance on the Consolidated Fund Account

	2013-14	2012-13
	£000	£000
Balance on Consolidated Fund Account as at 1 April	1,185	3,938
Net revenue for the Consolidated Fund	9,534	69,251
Less amount paid to the Consolidated Fund	(8,542)	(72,004)
<b>Balance on Consolidated Fund Account as at 31 March</b>	<b>2,177</b>	<b>1,185</b>

## 6 Losses statement

During the year outstanding CA98 debts totalling £780k were written-off as they were no longer collectable (2012-13: £363k). This total included one company with a debt due to the OFT of £296k and a series of other debts totalling £484k.

## **7 Events after the reporting period**

In accordance with the requirements of IAS 10 Events after the Reporting Period, post balance sheet events were considered up to the date on which the accounts were authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. The financial statements do not reflect events after this date. After the Reporting Period agreement was reached with HM Treasury to write off debts totalling £162k that had become uncollectable. These debts are included within note 6 – Losses Statement.

## **ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 7(2) OF THE GOVERNMENT RESOURCES AND ACCOUNTS ACT 2000.**

1. This direction applies to those government departments listed in appendix 2.
2. The Department shall prepare a Trust Statement (“the Statement”) for the financial year ended 31 March 2014 for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury (“FReM”) which is in force for 2013-14.
3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties by the Department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.
4. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
5. When preparing the Statement, the Department shall comply with the guidance given in the FReM (Chapter 13). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer’s Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.
6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.
8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under Section 7(2) of the Government Resources and Accounts Act 2000 shall be laid before Parliament at the same time as the Department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Karen Sanderson  
Deputy Director, Government Financial Reporting  
Her Majesty's Treasury

