



Groceries Code
Adjudicator

Groceries Code Adjudicator **Annual Report and Accounts**

2015 – 2016

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Presented to Parliament pursuant to Section 14 and Paragraph 15 of
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Any enquiries regarding this publication should be sent to us at
Groceries Code Adjudicator
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Contact the GCA at:

Website: www.gov.uk/gca
 Email: enquiries@gca.gsi.gov.uk
 Telephone: **0203 738 6537**

Foreword by Christine Tacon

Groceries Code Adjudicator



This has been another year of significant milestones for the Groceries Code Adjudicator. Stand-out events were the granting of financial penalty powers by Parliament; the conclusion of my first investigation, into Tesco plc ('Tesco'), and the completion of two arbitrations. Throughout the year I have maintained my collaborative approach with all 10 retailers.

I was pleased that I was granted the power to fine up to 1% of a retailer's UK turnover, the figure that I had recommended in December 2013.

However, I can only use this power for breaches of the Groceries Supply Code of Practice (the 'Code') which take place after April 2015 when the power came into force. This meant that the option to use a financial penalty in the Tesco investigation, which covered the period June 2013 to February 2015, was not available to me.

The Tesco investigation was the issue that the public and press focused on through the year and the subsequent report had a very high profile in all forms of media. Away from the public spotlight my office carried out a great deal of other important work that achieved good progress in the year.

I am convinced that the collaborative approach is bringing results and is doing so more swiftly and with more effective use of resources than the investigation route. I can report that all the regulated retailers made changes during the year to improve their compliance with the Code and I have highlighted some of these improvements in this report. I am also pleased that retailers are increasingly talking to me before launching initiatives – finessing the details in advance in order to ensure there are no unforeseen Code issues.

Investigation into Tesco

The investigation lasted almost a year from launch through to publication of my report and took over 50% of my time and 25% of the total office resource. Important elements of the investigation were the collecting and reviewing of evidence. This was done through an open call for evidence, information provided by Tesco in response to statutory requests and statutory requests to suppliers, including interviews. I read a huge number of documents that if they were arranged in a stack would reach twice my height. Reading the evidence informed my interviews with a large number of suppliers from across the UK, from a number of sectors and of varying sizes.

Reading the documentation was a very important part of the investigation as it deepened my insight into the relationship between suppliers and retailers and the tone and language of some of those relationships. It also identified issues other than those I outlined in the investigation call for evidence, and therefore reported on. These, I will be taking forward either with Tesco directly where the issues are cultural or through my wider collaborative approach with all retailers.

I found Tesco had breached the Code in the area relating to delay in payments and have made recommendations that require significant changes to Tesco processes which will benefit suppliers. For example, the seven-day deadline for resolving pricing errors is specific and challenging.

Further, suppliers now have 30 days in which to challenge a deduction from an invoice and money cannot be deducted if not agreed. My investigation found that disputes could take a very long time to be resolved with money owed to suppliers not being repaid for long periods. I will be formally monitoring progress and requiring evidence that the deadlines are being met by Tesco; the devil is very much in the detail of this recommendation. Although I did not have the power to fine Tesco for the breach of the Code, the process was not cost-free for Tesco as I have required the company to pay 85% of my investigation costs, amounting to over £1m to date.

My interpretation of the Code set out in the report is also relevant to all the retailers and I have already made that clear to the Code Compliance Officers ('CCOs'). No retailer can have any doubt about my interpretation of delay in payments and what I regard as a reasonable time for resolving payment issues and, therefore, how to comply with the Code.

Another result of my investigation was that I uncovered a range of practices relating to payments for better positioning and allocation of shelf space that require further scrutiny. I decided that I will launch a formal consultation on these practices relating to requests for investment, range reviews, category captaincy and category management which could result in the supplier getting better positioning or an increase in shelf space. The responses will help my understanding of how widespread these practices are and their effect on competition and consumer choice.

Since publishing the report I have reflected on the impact of the investigation and how costly and time-consuming it was. My analysis has underlined my message to the CCOs about how important it is for them to be proactive in identifying possible areas of Code breach and implementing remedies where needed. It is not sufficient to only react to issues when they are raised by suppliers.

My message to suppliers is that telling me about issues as they arise is a far cheaper and swifter route for me to remedy retailer practices and initiatives that potentially breach the Code than through an investigation. The investigation reduced my ability to speak directly to suppliers across the country as much as I had in previous years. However, I have now established a practice that whenever I speak to groups, I arrange surgeries to allow suppliers to meet me in private; this invariably brings me new information. I trust that my investigation into Tesco has reassured suppliers that I can bring to light a wealth of detail while protecting their anonymity. I have recently begun a series of events around the UK, in partnership with trade associations and the Devolved Administrations to meet direct suppliers and explain my Tesco findings and discuss my current work programme.

Top 5 issues

As part of my collaborative approach I met each CCO quarterly and held three meetings of all the CCOs together, including one to explain my findings from the Tesco investigation. Each retailer is required to bring an update of progress against the Top 5 issues to their quarterly meeting and the issues have been refined during the year as progress has been made and supplier concerns factored in. Progress on my Top 5 issues included a best practice statement on forecasting; holding a workshop on artwork and design and following up on data from each retailer on its record on delay in payments.

Training

Encouraging more suppliers to undertake training in the Code was a priority for the year and I held meetings with trade associations to urge them to host or organise such training. I am pleased that many of the trade associations have responded well and offered training sessions for the first time and in many cases then repeated the sessions. I am also pleased that there are new training providers and that Code-related training is being incorporated into negotiation training for suppliers. I produced a video on the importance of better supplier understanding about the Code, explaining how it could lead to more effective negotiations which my office made available to trainers to use in their training sessions. I was pleased to discover that a number of suppliers who came to hear me speak at a seminar in Aberystwyth in March, and who also requested a private session afterwards, had been trained and therefore were asking very relevant questions and raising legitimate concerns.

GCA Office

During the year the powers and resources of the GCA were strengthened. The office size increased with the appointment of a Compliance Manager and I am currently recruiting for another new member of staff. I have also experienced staff turnover, with two members of the team leaving the public sector, both of whom have been replaced. All members of the office are secondments from within the public sector but I am pleased that I have been able to promote temporarily one member of the team. The advantage of a small office is that the roles are hugely varied and very interesting with high levels of job satisfaction. My ongoing experience of recruiting from the public sector is that secondments are difficult to resource; parent departments remain reluctant to lose headcount at a time of cut-backs and as a result the process is slow. I therefore decided to carry out my first investigation with external resource to provide additional support and engaged a legal firm from the government panel.

Funding the investigation from a levy raised at the start of the financial year proved difficult, as the external legal resource cost significantly more than we had budgeted. We had prearranged a loan from the Department for Business, Innovation and Skills (BIS) which we used. This allowed me to manage my finances to fund the investigation before costs were recovered from Tesco. As a result of the experience from my first investigation, in the coming year I will be raising the levy to ensure I have the resources available to carry out further investigations where merited so that funding is not a limiting factor in carrying out my statutory functions.

Two arbitrations were started and completed in the year. I was pleased to see that these disputes were resolved soon after the parties exchanged pleadings and both sides were satisfied with the conclusion. I am keen to secure swift resolutions in such a fast-moving industry, but two other arbitrations that began last year still continue, with the parties requesting frequent extensions.

Challenges and future look

The key risks identified during the year were potential breakdown of the collaborative approach with some retailers, the GCA internal systems not being able to adapt to the increasing volume and complexity of issues and that confidence in the GCA is undermined by an accidental disclosure of confidential information. These risks were managed during the year and are covered in detail in the *Governance Statement*.

However, confidence in the GCA is also undermined by the common misunderstanding of my role. While I recognise that there are widespread calls for the extension of my remit into areas that are outside the Code, I cannot act in these areas. I use every available opportunity to explain what I can do, including giving evidence to Parliamentary Select Committees but dealing with this misunderstanding is very time consuming for my office and can act as a diversion from handling issues that the Code allows me to regulate. BIS will be carrying out a statutory review of the GCA office in the coming year and I hope this will resolve some of the confusion about my role.

I continue to rely on the annual GCA survey to demonstrate that progress is being made and to identify and prioritise issues. I was pleased that the 2015 survey identified a fall in the number of suppliers saying they had experienced a potential breach of the Code (down from eight out of ten in 2014 to seven out of ten). But the figure remains a strong marker of how much still needs to be done. Refinements to the April 2016 survey will allow CCOs to identify areas of concern by each retailer, as well as reflect on the annual league table of direct suppliers' perceptions of how well the retailers are complying with the Code.

Looking ahead, my priorities will be:

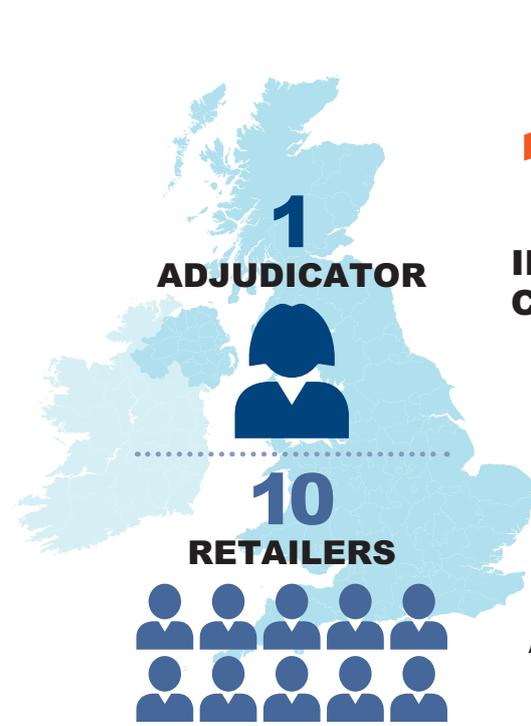
- Launching and responding to the consultation on better shelf positioning;
- Updating and developing a strategic approach to reviewing my Top 5 issues, building on the Tesco investigation findings and the 2016 GCA survey responses;
- Providing input and responding to proposals and actions arising from the BIS Review; and
- Continuing to act on supplier issues that either emerge from the survey or that I am alerted to during the year.



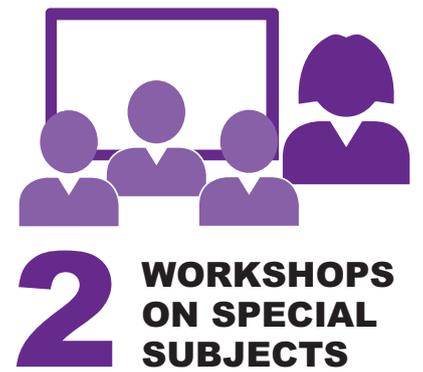
Christine Tacon

Groceries Code Adjudicator
and Accounting Officer

1 June 2016



Engagement



AND A SECTOR WORTH £177.5bn



Top 5 issues



OVERVIEW

The Groceries Code Adjudicator

Working for fairness in the groceries supply chain

The Groceries Code Adjudicator (GCA) was formally established on 25 June 2013 by an Act of Parliament. The GCA was set up to ensure supermarkets treat their suppliers lawfully and fairly.

The appointment followed a 2008 Competition Commission Market Investigation into the groceries sector. The Competition Commission found that, while the sector was broadly competitive, some large retailers were transferring excessive risk and unexpected costs to their direct suppliers. This could discourage suppliers from investing in quality and innovation; small businesses could fail and, ultimately, there could be potential disadvantage to consumers.

Following the Commission's recommendation, the government introduced the Groceries Supply Code of Practice (the Code) in 2010 to regulate the relationship between the 10 groceries retailers with UK annual turnover of more than £1 billion (the large retailers) and their direct suppliers. The government gave the retailers some time to set up a voluntary Ombudsman; the GCA was established on a statutory basis when the self-regulatory approach did not progress.

Christine Tacon – the first Adjudicator – is responsible for monitoring and encouraging compliance with and enforcing the Code. The GCA is funded by a levy on the large retailers. Suppliers, trade associations and other representative bodies are encouraged to provide the GCA with information and evidence about how the large retailers are treating their direct suppliers. All information received is dealt with on a confidential basis and the GCA has a legal duty to preserve anonymity.

GCA powers

At a supplier's request the GCA must arbitrate in disputes and may also do so following a request from a large retailer. Arbitration awards are binding and may include compensation.

The GCA can launch investigations and did so for the first time in 2015, reporting on 26 January 2016. If a breach of the Code is found, the GCA can make recommendations, require large retailers to publish details of any breach and in the most serious cases impose a fine. Fining powers – to a maximum of 1% of the relevant retailer's UK turnover – were brought into effect on 6 April 2015.

Under the Code the large retailers are obliged to deal fairly and lawfully with suppliers across a range of supply chain practices. These include: making payments on time; no variations to supply agreements without notice; compensation payments for forecasting errors; no charges for shrinkage or wastage; restrictions on listing fees, marketing costs and delisting. This list is not exhaustive and full details are available on www.gca.gov.uk. The Code does not cover issues such as price setting, the relationship between indirect suppliers and the large retailers, food safety or labelling. These issues are outside the GCA's remit.

The way the GCA works

The GCA encourages suppliers to continue to bring Code issues and evidence to its attention in order to inform decisions and actions. The GCA also gathers information from retailers, trade associations and others. The stronger the evidence base, the greater the justification for action.

As a small regulator the GCA must effectively prioritise its activities. The statutory guidance on investigation and enforcement functions (the 'statutory guidance') sets out four prioritisation principles to guide decisions about whether to launch an investigation and the GCA will apply these principles when considering other activities, too. The four principles are:

Impact	The greater the impact of the practice raised, the more likely it is that the GCA will take action.
Strategic importance	Whether the proposed action would further the GCA's statutory purposes.
Risks and benefits	The likelihood of achieving an outcome that stops breaches of the Code.
Resources	A decision to take action will be based on whether the GCA is satisfied the proposed action is proportionate.

The GCA must carry out its statutory purposes set out in the Groceries Code Adjudicator Act 2013. The Adjudicator has developed an approach that fits the resources available and the outcome the GCA was set up to deliver. It is a modern regulatory approach, with collaboration and business relations at its core and is delivered through a three-stage process. When Code related issues are raised, the GCA follows the approach set out below.

Stage 1	The GCA will make retailers aware of issues reported by suppliers
The GCA will consider whether the issue raised appears to be more than an isolated occurrence. If so will, it will be raised with large retailers' CCOs for their own action. In some circumstances if they are judged to have significant impact the GCA will also raise single incidence issues with CCOs so long as confidentiality can be maintained.	
Stage 2	The GCA will request that CCOs investigate the issue and report back to the GCA
The GCA will raise the issue with the relevant CCO or all CCOs either if the issue is widespread or to protect the confidentiality of the supplier(s) experiencing the issue. The CCO will be expected to look into whether a breach has occurred in their organisation. Depending on what is found by the CCO, the GCA may issue advice clarifying or interpreting the relevant provisions of the Code for the retailer and others to follow. Where a retailer or retailers accept a breach of the Code has taken place the GCA may publish a case study on the GCA website.	
Stage 3	The GCA may take formal action if the practice continues
If the GCA continues to hear of suppliers experiencing the same issue then the outcome may be to publish more formal guidance and/or launch an investigation.	

Through this process the GCA ensures that issues are raised with and promptly considered by the large retailers with any necessary action agreed and taken as swiftly as possible. This is an efficient way to deal with current groceries sector practices that may not be consistent with the Code.

The GCA believes that this collaborative approach has a dual benefit. It significantly reduces the cost of regulating the large retailers limiting costly investigations to when other means of effecting change have failed and it delivers results more quickly. Since the GCA's establishment and with the support of each CCO it has proved to be effective.

The GCA's responsibilities do not extend to acting as a complaints body, nor can it advise on individual disputes where a supplier seeks a view on whether a large retailer has breached the Code. This is because the GCA may later be asked to arbitrate in the same dispute between the supplier and the large retailer or may later launch an investigation into the practice raised by the supplier. Providing a view on individual cases would compromise the GCA's objectivity.

However, the GCA encourages suppliers to approach CCOs directly because they can deal with issues quickly and, where needed, discreetly.

The ultimate goal of the GCA is to promote a stronger, more innovative and more efficient groceries market through compliance with the Code and, as a result, to bring better value to consumers. The GCA is working with suppliers and the large retailers to respond to issues rapidly and relies on suppliers and others bringing evidence of non-compliance quickly to the GCA to achieve this goal.

More information is available on the GCA website: www.gov.uk/gca.

Performance analysis

The GCA's key performance indicators are set out in the Groceries Code Adjudicator Act 2013 as statutory reporting requirements. There are four statutory reporting requirements on which performance is measured and the performance against these objectives is set out in the table below:

Disputes referred to arbitration under the Groceries Supply Order

The GCA received two requests for arbitration in reporting period 2015/16 adding to the two initiated in previous years. Two arbitrations have concluded and two remain underway.

Investigations carried out by the GCA

The GCA concluded its first investigation, into Tesco plc, on 26 January 2016.

Cases in which the GCA has used enforcement measures

The GCA chose to use the make recommendations enforcement measure and issued five recommendations to Tesco plc.

Recommendations that the GCA has made to the Competitions and Markets Authority (formerly Office of Fair Trading) for changes to the Code

The GCA has made no recommendation to the CMA for any change to be made to the Code.

Strategic Objectives

In addition to the statutory reporting requirements, the GCA also monitors its performance against four strategic objectives:

- Objective 1** Promoting the work of the GCA
- Objective 2** Providing advice and guidance
- Objective 3** Acting on suppliers' issues and information
- Objective 4** Improving the culture of Code compliance

In this third year of operation the GCA has continued with the objectives established in the first two years.

Objective 1 Promoting the work of the GCA

This is critical to encourage and give confidence to suppliers to challenge behaviour that is not compliant with the Code, and if appropriate to raise it with the retailer's CCO or the GCA. It is also important to dispel misinformation and misunderstanding about the GCA's remit and responsibilities.

In this third year of operation the GCA office has continued to promote its work, using a variety of channels and opportunities.

- Tailoring speaking engagements to specific audiences
- Meeting stakeholders on a regular basis
- Disseminating information: engaging proactively with the media, publishing a regular newsletter and providing information on the GCA website; and
- Promoting the need for suppliers to be well-trained in the Code.

Tailoring speaking engagements

Time taken up with the detailed investigation into Tesco reduced the number of opportunities for the GCA to speak at events during the year. However, the Adjudicator was able to accept a number of engagements to speak directly to suppliers and to wider audiences. With the Adjudicator's available diary time curtailed the GCA sought and developed other methods for reaching supplier audiences.

Following publication of the Tesco report the GCA worked with trade associations and the Devolved Administrations to develop a series of events to allow the Adjudicator to discuss her priorities and to explain her investigation findings to suppliers in more detail. To reach suppliers from across the UK, Aberystwyth was the venue for the first one, with events also organised in Edinburgh, London and Belfast.

Meeting stakeholders on a regular basis

The Adjudicator continues to keep UK Government Ministers, the Devolved Administrations and parliamentarians fully informed about GCA activities and developments. She has met ministers and officials and given evidence to a Parliamentary Committee.

A number of meetings were held with trade associations, including a major event with key associations focusing on exploring closer ways of working together to make suppliers aware of how the Code can work for them.

More than 200 people attended the GCA Conference held in June 2015 at the Church House Conference Centre, Westminster. As well as hearing the results of the second annual survey, participants took part in discussions and were presented with the Adjudicator's priorities for the coming year. BBC Radio 4's You and Yours programme broadcast live from the event. The overwhelming majority of those participants who completed a feedback survey agreed or strongly agreed with the statement that they felt they had benefitted from attending the conference.

Disseminating information

The media continue to be interested in the work of the Adjudicator and the wide network of media contacts that the GCA has built in the national, regional and specialist press has helped spread awareness and information about its activities. The annual conference was preceded by a briefing to the media and the event and survey results were widely covered by broadcasters, print and web journalists.

There was a significant level of media interest in the publication of the Tesco investigation report on 26 January. The Adjudicator held a media briefing for journalists and gave interviews to a range of broadcasters. Her findings were comprehensively covered on TV and in the press.

The GCA website is regularly updated and remains the main source of information for suppliers and others interested in the work of the Adjudicator and her office. Four editions of the quarterly newsletter containing the most up-to-date information on activities have been published and registered readers receive an alert when each edition is published.

To overcome the limited opportunities for personal speaking engagements in a busy diary the Adjudicator filmed a short video setting out recent achievements and priorities. This could be viewed via the GCA website but was also available to organisations to use at groceries-related events.

Promoting the need for suppliers to be well trained in the Code

At the annual conference the Adjudicator announced that one of her priorities was to encourage trade associations and others to offer Code training to suppliers. The annual survey had underlined her own perception that suppliers still knew too little about the Code despite it having been in existence for five years. The numbers of suppliers responding that they had received training was very low; in comparison buyers from the regulated retailers are required by The Groceries (Supply Chain Practices) Market Investigation Order 2009 (the 'Order') to undergo annual training.

The Adjudicator made the case for training at the annual meeting of trade associations and encouraged them to organise sessions for their members. She produced a video highlighting her training message for suppliers; this was offered to training providers to set the scene at sessions. Following the annual conference and trade association meeting a number of associations launched training events. She is pleased to note that a number of new training providers are now actively helping suppliers understand and use the Code.

Objective 2 Providing advice and guidance

The GCA has continued to publish guidance, responding to concerns raised by suppliers and retailers. This has included:

- A paper on the three types of interpretative publication the GCA issues
- Consumer complaints best practice statement
- A best practice statement on forecasting
- Revisions to statutory guidance and GCA arbitration policy
- Tesco investigation report.

The GCA published a paper explaining the three different types of interpretative publication available: **guidance** being a clear interpretation of the Code to be applied by all regulated retailers; **best practice** where an issue related to the Code but was an aspirational way of working that retailers agreed to work towards and **voluntary agreement** where a practice could in certain circumstances become a Code-related issue but was not itself governed by the Code.

The best practice statement on forecasting encouraged much closer collaboration between retailers and their suppliers to reduce the impact of inaccurate forecasting and to ensure that the risks and costs associated with changes to forecasting are shared appropriately between the retailer and supplier.

The statutory guidance was updated to include reference to the financial penalty powers and the GCA arbitration policy was updated to give a clearer indication as to the GCA's approach to her arbitration function.

The Tesco investigation findings and subsequent recommendations have provided a clear interpretation of the Code in relation to paragraph 5, dealing with delay in payments. A summary of the investigation report can be found at the *Significant activities* section.

Objective 3 Acting on supplier issues

The primary purpose of the GCA is monitoring and encouraging compliance and enforcing the Code. The GCA has continued to work to do this and to measure progress by:

- Raising issues with CCOs;
- Concluding an investigation;
- Conducting arbitrations; and
- Commissioning a GCA survey.

Raising issues with CCOs

The GCA has continued to work collaboratively with retailers, meeting each CCO quarterly and holding three meetings of all the CCOs together, including one to debrief them on the Tesco investigation.

Each retailer is required to bring an update of progress against the Top 5 issues to their quarterly meeting and the issues have been refined during the year as progress has been made and supplier concerns factored in. Full details can be found in the *Top 5* section of the report but in summary:

- A best practice statement was issued relating to forecasting.
- There were formal discussions on the issues raised by suppliers over design and artwork at the September workshop and work is ongoing.
- In addition to the work on delay in payments arising from the Tesco investigation, the GCA carried out an exercise asking retailers to report on their performance in paying undisputed invoices from their groceries suppliers: the figures established an unweighted average of 94% being paid to terms with 99% paid within 7 days of terms. The GCA is pleased that the lowest-scoring retailer has already improved its processes to achieve performance at the level of 94% and has further plans for improvement.

Concluding an investigation

This is reported separately in the *Significant activities* section.

Conducting arbitrations

Two arbitrations were completed in the year, with the disputes being resolved soon after exchange of pleadings. Two other arbitrations from previous periods continue: delays have been caused by frequent requests from the parties concerned for extensions of time. The GCA arbitration policy has been refined to reinforce the message that the GCA can only rule on Code-related issues and cannot provide a substitute for commercial litigation.

Commissioning the GCA survey

The GCA uses an annual perception survey to gauge the views of suppliers, ensure that the widest possible range of supplier issues are registered and measure Code compliance year on year. Each retailer receives a tailored report showing how it is perceived by its suppliers.

The GCA commissioned YouGov to carry out its second survey of the groceries sector in 2015. The results were announced at the GCA conference in June 2015 and the 2016 survey was launched on 14 March and is in progress at the time of writing.

Key findings from the 2015 survey are set out in the following section of this report.

Objective 4 Improving the culture of Code compliance

The GCA added this objective in 2015. The Adjudicator had already identified how company culture could have an impact on Code compliance and indeed, culture was a key issue that arose in the Tesco investigation and is covered in the investigation report. The issue of culture was also reinforced with CCOs at the Tesco investigation debrief session.

The GCA held a follow-up meeting with the chairs of audit committees (or equivalent) to discuss thematic issues arising from all retailer Annual Compliance Reports. The GCA continued a programme of visits to retailer head offices to meet with CEOs, buyers and other representatives as well as to review the retailer's in-house training.

GCA annual survey

In 2015 the GCA commissioned YouGov to carry out a second survey of the groceries sector. The aim was to gain a comprehensive understanding of the current concerns in the sector, measure progress of Code compliance against the first annual survey results and test some new issues. These issues included how well buyers complied with the Code as well as the perception of the retailer’s overall compliance, and the extent to which suppliers had undertaken Code training.

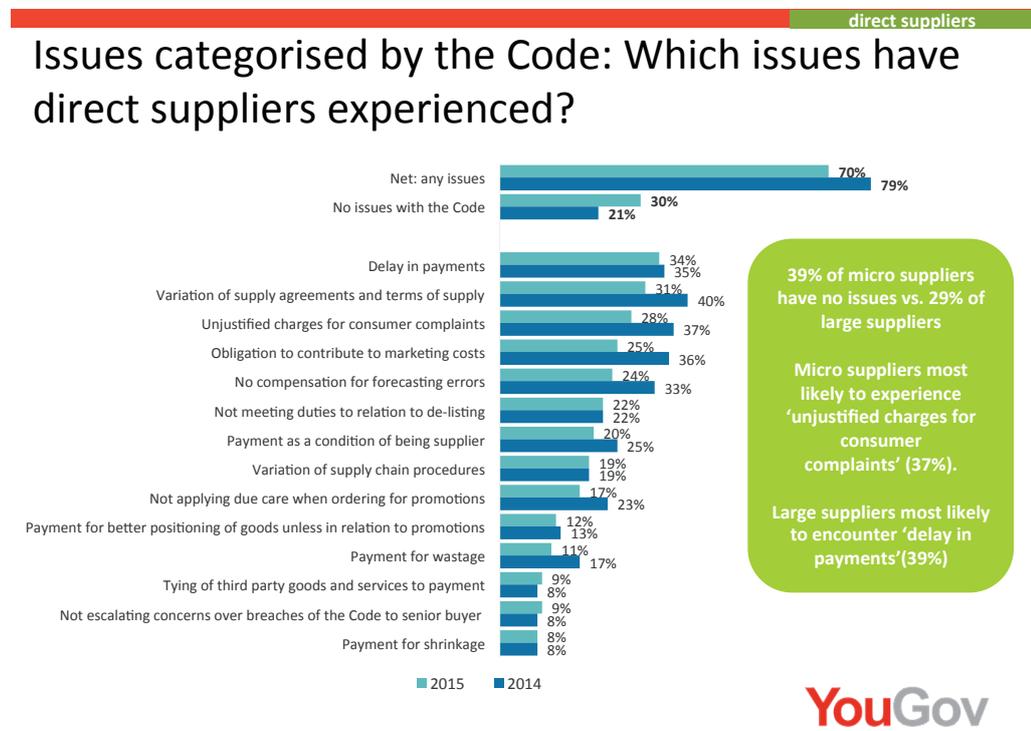
YouGov presented the results to the GCA conference in June 2015.

Participants

The GCA received strong support in raising awareness of the survey among suppliers from the large retailers and participation was considerably higher (1,145) than the first held in 2014 (574). Respondents included 978 direct suppliers (representing 85% of the total), 163 indirect suppliers and 41 trade associations.

Key findings

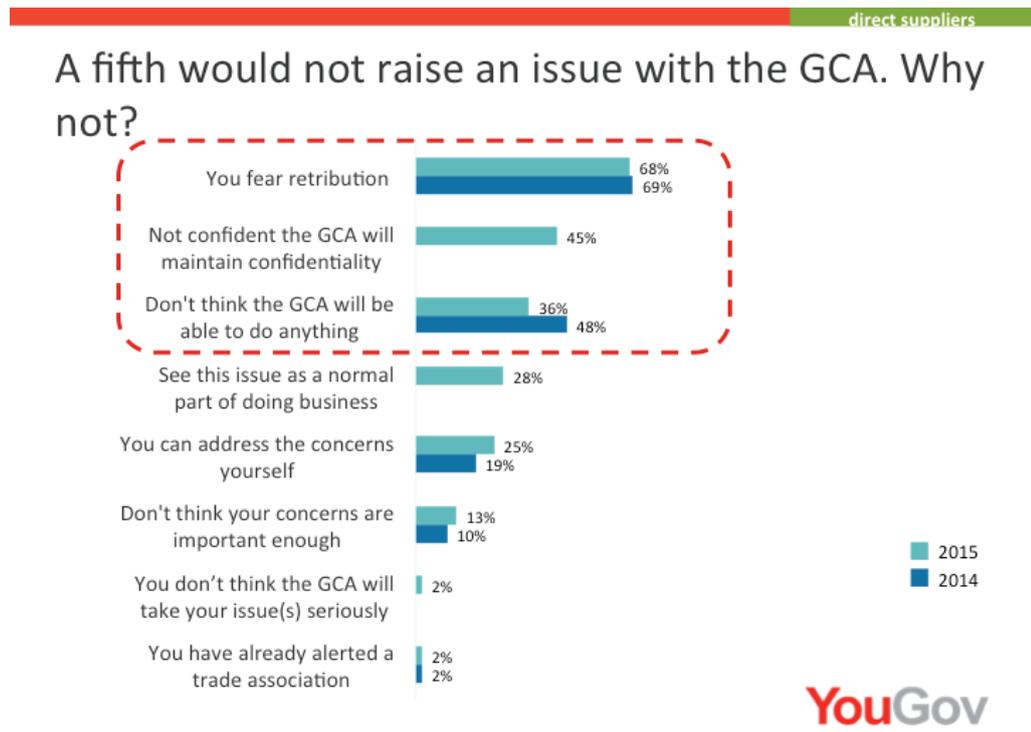
The survey identified a welcome reduction in the number of suppliers stating that they had in the previous 12 months experienced issues that could be breaches of the Code. The proportion was seven out of ten – down from eight out of ten in 2014 – with the most commonly-identified issue being Delay in Payments (34%).



However, only 17% of direct suppliers had raised an issue with a retailer in the last year, although more said they knew where to find the retailer’s CCOs (increases of between 6 and 25 percentage points).

Awareness of the GCA also rose during the year from 71 per cent to 78 per cent among direct suppliers but YouGov identified a wide range of knowledge of the GCA with micro suppliers having the lowest on 65% and small suppliers the highest with 88%.

There was a corresponding rise in respondents saying they would be prepared to raise an issue with the GCA – up from 38% to 47% among direct suppliers. Fear of retribution (68%) remained the key issue among those who would not raise an issue with 45% not confident the GCA would maintain confidentiality. Those who did not think the GCA would be able to do anything fell from 48% to 36%.



Training

The Adjudicator was keen to test her perception that few suppliers had been trained in the Code and the survey posed two questions to suppliers: “Does your company offer training on the Code?”; and “Have you received any training on the Code?” The replies revealed that fewer than three out ten suppliers had received training – a problem that was even greater among micro suppliers (9%) and small suppliers (24%).

Training on the Code



Availability of training varies by supplier size- 9% of micro suppliers, 18% of small, 25% of medium and 37% of large suppliers say their company offers training on the Code



Larger suppliers are most likely to have had training on the Code (39%) - compared to 9% of micro suppliers, 24% of small, 32% of medium suppliers

More information is available on the GCA website: www.gov.uk/gca.

Acting on supplier feedback

Follow-up survey

A small follow-up survey was carried out during the year among those who had agreed to be re-contacted by the GCA. The main aim was to gain a deeper understanding of why suppliers would not raise an issue and the key conclusions were:

- Direct suppliers are positive about the GCA's purpose, but some are still unsure of its role and remit;
- The biggest reason for not raising an issue with the GCA is the fear of retribution and that confidentiality will be breached;
- Suppliers were not sufficiently aware of the Code as they had not been trained.

Acting on supplier feedback

The two surveys highlighted a major problem over the low rates of Code-related training among suppliers. The GCA identified the importance of the role that could be played by trade associations in improving training take-up and organised a specific workshop to focus on this issue. The GCA has made changes to the 2016 survey, asking specific questions designed to identify the major barriers to suppliers accessing training.

Individual surgeries held at regional events are a key element of supplier events and help overcome the fear that confidentiality will be breached by allowing the suppliers to speak directly to the GCA. The GCA also reinforces her confidentiality duty at all speaking events. Additional publicity material clarifying the GCA's role has also been distributed to suppliers via trade associations.

Significant activities

GCA investigation into Tesco plc

The full report is published on the GCA website www.gov.uk/gca. This summary is an extract from the report and sets out in brief the Adjudicator's findings and decisions.

“Findings on paragraph 5 – delay in payments

Paragraph 5 of the Groceries Supply Code of Practice (“the Code”) requires retailers to pay a supplier for groceries delivered in accordance with the contractual terms agreed with the supplier and in any event within a reasonable time after the date of the invoice. The vast majority of the evidence that I received demonstrated that Tesco plc (“Tesco”) paid regular, undisputed invoices in accordance with its contractual terms with suppliers. However I also found extensive evidence that where payments were otherwise than for goods supplied or there was any disagreement over amounts due, this resulted in Tesco deducting or deferring payment of money owed to suppliers for goods supplied. Sometimes this involved significant amounts that were delayed for long periods of time. Even in circumstances where a debt had been acknowledged by Tesco, on occasions the money was not repaid until over 12 months later with some amounts taking up to 24 months to be repaid.

I received evidence of a number of factors that caused delay in payments, including the following:

Data input errors

I saw numerous instances when data input errors by Tesco into its systems resulted in suppliers being overcharged or underpaid by Tesco. Tesco failed to rectify data input errors within a reasonable time and also failed to pay money owed to suppliers as a result of these errors within a reasonable time. I found that the frequency and scale of the issues resulted in business practices which were unfair.

Duplicate invoicing

I received evidence of duplicate invoices being issued to suppliers, usually relating to promotional activities. Tesco would sometimes deduct both invoiced amounts from the total sum that it paid to suppliers. I found that there were instances when Tesco failed to rectify these errors and repay the money owed to suppliers within a reasonable time.

Tesco focus on meeting financial targets

It was clear from the evidence that a major focus of the Tesco commercial team during the investigation period was on hitting budgeted margin targets. A percentage margin target was a key element of many of the Joint Business Plans (“JBP”) which Tesco negotiated with suppliers on a periodic basis. Payments to maintain the margin target were requested from suppliers by Tesco regardless of whether the planned growth had been achieved and regardless of whether Tesco had delivered on its own JBP commitments. I found that the direction being given to Tesco's buying team as to the status and enforceability of JBP targets was contradictory and unclear.

I received internal Tesco emails which encouraged Tesco staff to seek agreement from suppliers to the deferral of payments due to them in order temporarily to help Tesco margin.

I also saw internal Tesco emails suggesting that payments should not be made to suppliers before a certain date in order to avoid underperformance against a forecasted margin. I found that Tesco knowingly delayed paying money to suppliers in order to improve its own financial position.

Unilateral deductions made in relation to historic claims

I received evidence of unilateral deductions being made by Tesco for historic claims, also referred to as forensic audit claims. Tesco used third party auditors to review its accounts for historic invoicing errors or omissions that would provide evidence that suppliers had previously underpaid Tesco. These were then claimed even when suppliers believed that they had made payments to “close” previous financial periods. I found that unilateral deductions from suppliers were made based on historic claims and these resulted in delay in payments to suppliers. Unilateral deductions for historic claims are unreasonable.

Unilateral deductions for short deliveries and service level charges

Tesco standard terms and conditions impose charges on suppliers where they fail to deliver products in accordance with orders placed by Tesco. Most suppliers also have service level targets which are based upon the supplier’s performance over a set period of time and which they will be fined for failing to meet. I found evidence of Tesco seeking to enforce these terms where the supplier disputed the charges and some evidence of Tesco unilaterally deducting such charges from the supplier. There were instances of unreasonable delay in resolving disputed charges and paying back money owed to the supplier. I found that the delay by Tesco in resolving these disputed charges and the delay in repaying monies unilaterally deducted was unreasonable.

Unilateral deductions made for other items or unknown items

I received limited evidence that Tesco charged promotional fixed costs (known as gate fees) for activities which were not carried out, following which repayment of money to suppliers was sometimes significantly delayed. I found that any failure to promptly repay money a supplier has paid for a promotion which did not run was an unreasonable delay in payment.

Factors that contributed to delay in payments

In my report I set out a number of factors that I found had contributed to delay in payments, particularly Tesco systems and procedures and Tesco practices and behaviours. Suppliers reported poor administration and poor communication within Tesco. I found that Tesco had inadequate processes and systems for correcting data errors or incorrect deductions. Errors and complications in Tesco’s systems resulted in delay in payments which frequently extended to many months. I consider such delay to be unacceptable and unreasonable.

One of the key cultural factors which contributed to delay in payments was the apparent reluctance of some Tesco buyers to pro-actively engage in the resolution of payment disputes. There were times when Tesco did not appear to even attempt to resolve supplier concerns before unilaterally deducting money from suppliers. I found the delay that resulted from a failure by Tesco to fully engage in resolving difficulties to be unfair and unreasonable.

Buyers frequently sought to use money owed to a supplier as leverage in negotiations for future agreements or promotions. I found that Tesco acted unreasonably when seeking to bring the

resolution of debts into other commercial negotiations and delaying payment of monies owed until other negotiated terms were agreed.

Conclusions on delay in payments

I am satisfied that Tesco has acted in breach of paragraph 5 of the Code.

I found that delay in payments was a widespread issue that affected a broad range of Tesco suppliers on a significant scale. The delay in payments had a financial impact on suppliers, was an administrative burden to resolve, detracted from the time available to develop customer-focussed business and had a detrimental impact on some suppliers' relationships with Tesco.

Paragraph 12 – better positioning of goods

The investigation has not revealed any evidence that Tesco has breached paragraph 12 of the Code by directly requiring suppliers to make payments in order to secure better positioning or increased allocation of shelf space. I am not satisfied that Tesco has acted in breach of paragraph 12 of the Code.

However I found evidence arising from the investigation into Tesco of a range of practices on which I would like to consult further. These practices may amount to an indirect requirement for a supplier to make a payment in order to secure better positioning or an increase in shelf space. They include requests for “investment” by Tesco in exchange for benefits to be agreed with the supplier. The benefits sought by suppliers included better positioning or increased shelf space. This may amount to an indirect requirement by Tesco for payment contrary to paragraph 12 of the Code. I also received evidence during my investigation of payment by suppliers of large sums of money in exchange for category captaincy or participation in a range review. The evidence suggests that this may have become common practice in Tesco. I received some evidence that the benefits that suppliers derive from these arrangements may include maintained or improved share of shelf or better positioning.

I am concerned that as a consequence of these behaviours the purpose of the Code may be circumvented. The arrangements appear to have the potential to have an adverse effect on competition through the acceptance of large sums of money from suppliers in exchange for better positioning or increased shelf space. I am mindful that this is a significant issue and not one upon which I am currently in a position to make findings. I will therefore be obtaining further information and undertaking a formal consultation into these issues following publication of this report. I will then reach a position on whether or not these practices are acceptable.

Tesco engagement with the Code

Tesco has informed me of a number of changes it is making to improve its Code compliance programme, including improvements to its handling of payment disputes with suppliers, the introduction of a Supplier Helpline and improved internal training and monitoring. The overwhelming majority of the suppliers I spoke to during my investigation told me that their relationships with Tesco were more positive today compared to during the period under investigation. Suppliers spoke of improvements in the way issues were handled by Tesco, a more open and collaborative approach and more attention being paid to the customer.

Enforcement measures

The enforcement powers available at the conclusion of my investigation were to make recommendations or require information to be published. I had no power to impose a financial penalty because the Order granting me this power only applies to breaches of the Code occurring on or after 6 April 2015.

I consider Tesco's breach of paragraph 5 of the Code to be a serious breach due to the varying and widespread nature of the delay in payments. I have decided that recommendations are a proportionate and effective measure to reduce the likelihood of repetition of non-compliance with paragraph 5 by Tesco. I also believe that the implementation of these recommendations will provide greater certainty to suppliers that they will be paid on time and that disputes and errors will be resolved promptly. My recommendations are as follows:

Recommendation 1	Money owed to suppliers for goods supplied must be paid in accordance with the terms for payment agreed between Tesco and the supplier.
Recommendation 2	Tesco must not make unilateral deductions.
Recommendation 3	Data input errors identified by suppliers must be resolved promptly.
Recommendation 4	Tesco must provide transparency and clarity in its dealings with suppliers.
Recommendation 5	Tesco finance teams and buyers must be trained in the findings from this investigation.

I will now be working with Tesco on the implementation of my recommendations. I require Tesco to provide a detailed implementation plan within four weeks of the publication of this report setting out how it will comply with my recommendations. Tesco is then required to respond to the recommendations on a quarterly basis and provide specific information to me as part of this response, in order for me to monitor its compliance with my recommendations.”

Issues and priorities

Issues raised on Code compliance

The GCA has continued to hear from direct and indirect suppliers, trade associations, other bodies and the media about a range of issues covered by the Code and relating to large retailer practice. These issues form part of the growing GCA evidence base which will inform future action. All the issues that have been raised with the GCA since its establishment in June 2013 are set out below.

The GCA maintains a full set of issues raised so that retailers can remain aware of the issues faced by suppliers and for suppliers to be aware of these issues in the event that they too face similar challenges. It also allows suppliers to provide the GCA with new information on issues which have not previously been raised but which are causing problems.

In order to ensure we meet the duty to preserve the confidentiality of those who provide information to the GCA, the GCA will not publish statistical information on issues raised.

Part of the Code	Issues raised
<p>Variation</p> <p>(3) Of Supply Agreements and terms of supply</p> <p>(4) To supply chain procedures</p>	<p>Terms of supply varied during the contract term:</p> <ul style="list-style-type: none"> ■ Written supply agreements not in place ■ Request for lump sum payments, often at key accounting periods ■ Request for lump sums for previous periods, not previously agreed ■ Retailer margin maintenance: inclusion in agreements (contracts and Joint Business Plans) of elements over which suppliers have no influence ■ Attempts to alter prices paid to suppliers once agreement/contract is in place ■ Request to agree to a retrospective overrider for new supply ■ Use of service levels: not agreed with supplier or unclear methodology applied; and where penalties are applied for allegedly failing to meet targets ■ Inclusion of terms of supply notified only after Supply Agreement has been negotiated and terms agreed (particular to new suppliers); administration charges for trading accounts; product testing; packaging/artwork charges ■ Introduction of audits paid for by suppliers, e.g. ethical, traceability ■ Changes to payment terms and method of payment

Part of the Code	Issues raised
<p>Prices and payments</p> <p>(5) No delay in payments <i>(includes unilateral deductions and deductions without notice)</i></p> <p>(6) No obligation to contribute to marketing costs <i>(including artwork and design of packaging; market research; retailer hospitality)</i></p> <p>(7) No payments for shrinkage</p> <p>(8) No payments for wastage <i>(unless set out in the Supply Agreement)</i></p> <p>(9) No payments as a condition of being a supplier <i>(including listing fees)</i></p> <p>(10) Compensation for forecasting errors</p> <p>(11) No tying of third party goods and services for payment <i>(including payment of packaging and haulage costs)</i></p>	<p>Payment terms not adhered to</p> <p>Automatic deductions from invoices or trading accounts:</p> <ul style="list-style-type: none"> ■ Without notice and sometimes before supplier requests payment for goods ■ Without sufficient or any explanation (particularly where large sums of money are involved or where deductions are acute for smaller supplier cash flows) ■ Withholding payment for entire invoice where only one element of invoice is in dispute ■ Drop and drive: deductions for alleged delivery discrepancies where there is little or no ability to check or challenge retailer's paperwork <p>Erroneous deductions and delays in repaying:</p> <ul style="list-style-type: none"> ■ Lack of supplier access to decision-maker in respect of deductions, to understand the deduction and recover monies taken in error ■ Delay in refund of money deducted in error due to 'failure' to hit agreed Service Level ■ Third party and internal audit practices ■ Repeated chasing required for agreed refunds to be processed and refunds not processed until after closure of key accounting periods ■ Delay in reverting pricing systems to standard price after promotions ■ Delays in changing prices, resulting in delays in resolving queries ■ Individual invoices in multiple batches regularly going missing <p>Perceived high charges for mandated packaging and artwork, where supplier believes it can secure cheaper service of comparable quality elsewhere:</p> <ul style="list-style-type: none"> ■ Flat rate charge for images ■ Charges for artwork much higher than open market ■ Numerous design changes through the year; lack of reasonable notice of change resulting in cost of excess packaging stock being borne by supplier ■ Charge for packaging changes invoiced without prior agreement that this would be required ■ Pressure to use 'recommended suppliers' for packaging ■ Preferred supplier packaging suppliers more expensive than comparable competitors ■ Cost of use of plastic crates (e.g. for fresh produce) and reasonableness of hire conditions

Part of the Code	Issues raised
<p>Prices and payments – <i>Continued</i></p>	<p>Payments for wastage</p> <ul style="list-style-type: none"> ■ Request for deficit due to wastage to be covered in full by supplier. <p>Request for listing fees:</p> <ul style="list-style-type: none"> ■ Requests by retailer for supplier to stop supplying specific competitors ■ Fees requested not reflecting the risk of listing a new product ■ Multi-channel charges – listing fees for additional channels to market for products already stocked ■ Fees to access retailer order/forecasting systems ■ Lump sum requested to secure arrangements in a range review <p>Poor forecasting accuracy:</p> <ul style="list-style-type: none"> ■ Disclaimers by retailers that all forecasts are prepared in good faith being added to email footers ■ Lack of clarity about what is a forecast and what constitutes an order ■ Excessive charges applied for short delivery, particularly when the forecast volume has been met, but the order considerably exceeded the volume forecast ■ Failure by large retailers to take account of compensation for the impact of poor forecasting on suppliers, including changes to agreed distribution levels, over-ordering prior to a promotion or at the start of a listing ■ No evidence of compensation for suppliers <p>Lack of choice on haulage provider:</p> <ul style="list-style-type: none"> ■ Where supplier has access to a cheaper alternative ■ Poor service levels by haulier mandated or provided by retailers resulting in supplier penalty

Part of the Code	Issues raised
<p>Promotions</p> <p>12) No payments for better positioning of goods unless in relation to promotions</p> <p>(13) No requirement to predominantly fund a promotion</p> <p>(14) Not applying due care when ordering for promotions</p>	<p>Attempted charges for better shelf position not related to a promotion</p> <p>Over-ordering at promotional price</p> <p>Changes to promotions at short notice</p> <ul style="list-style-type: none"> ■ Distribution, price, quantities, timing and funding <p>Request to fund a promotion</p>
<p>Other duties</p> <p>(15) No unjustified charges for consumer complaints</p> <p>(16) Not meeting duties in relation to De-listing <i>(including giving reasonable notice and giving commercial reasons behind the decision and reasonable notice)</i></p> <p>(17) Not escalating concerns over breaches of the Code to the Senior Buyer</p>	<p>Lack of transparency on customer complaint charges</p> <ul style="list-style-type: none"> ■ Different flat fees charged which do not appear to relate to retailer's cost of handling complaints <p>Unclear large retailer De-listing practice</p> <ul style="list-style-type: none"> ■ Different perspectives (retailers compared to suppliers) on reasonable notice periods: ■ Short notice periods may not take account of supplier circumstances ■ De-listing following supplier investment to meet retailer demands ■ De-listing following competitor lump sum payment to obtain business and to increase share of shelf space ■ Suppliers being asked to identify competitor SKUs for De-listing

Top 5 issues

As reported in the *Issues raised on Code compliance* section of this report, the GCA has had a range of issues referred to it. Applying the prioritisation principles and in keeping with the collaborative approach the GCA identifies on an iterative basis five key areas to focus on where suppliers believe that large retailer practices may breach the Code. These issues are raised with CCOs and discussed on an ongoing basis with them at their individual quarterly meetings and six-monthly group meetings.

The GCA keeps the Top 5 issues under regular review, responding to changing supplier concerns and retailer activity on them. Those issues that have featured during the year are set out below. Progress has been made on key issues and therefore the GCA now has three open issues still under review. A strategic review of the Top 5 issues will be carried out and the results announced at the GCA conference in June 2016.

Continuous monitoring

All the issues which are classed as Top 5 issues will remain as priority issues for the GCA. While some are classified as 'closed' the GCA is still interested in feedback from suppliers if issues persist and may continue to monitor them with the CCOs. The GCA has looked into the issues and published her opinion based on the information she has reviewed, however, practices and events could change and new information may mean that a review of the issue is needed.

The GCA will continue to seek feedback from the large retailers on all Top 5 issues and information will be published on the GCA website.

It should be noted that while the GCA discussed the following areas with all CCOs, the issues raised should not be interpreted as attributable to any particular large retailer or all large retailers, unless specified.

Progress continues to be made on the Top 5 issues. This year: two issues have been identified, addressed and closed; three issues have been identified and taken forward with retailers and remain open; and two issues which were identified and addressed last year are now closed.

■ NOW CLOSED: Forecasting/service levels

Description:

Suppliers report that the accuracy of large retailers' forecasts is poor and that significant variations occur between forecasts made and orders placed, sometimes at very short notice. In some cases suppliers have been charged for non-delivery against orders, with inconsistent reference to forecasts. For those with Joint Business Plans (JBPs), this may be used as a means to justify penalties applied. Such activity pushes the risk of managing variability of demand onto the supplier but with little, if any, control over it.

Some large retailers are reported to be applying penalties for failure to meet service levels set out in supply agreements, without regard to the accuracy of forecasts (both high and low).

This may happen without clear agreement on the expected level of service and how it is to be measured and the practice can lead to significant wastage in the supply chain, particularly of fresh produce. The penalty for non-delivery per case tends to be fixed and can be more than the cost of production.

The GCA was informed by large retailers that some suppliers knowingly accept orders that they are unable to fulfil. The GCA is of the view that both parties should contract in good faith and that suppliers should alert large retailers as soon as they know that they will be unable to meet a forecast, and if the subsequent order is not fulfilled then the procedure set out in the relevant supply agreement should be followed.

Potential Code breach:

- The GCA considers that the effect of this practice falls under part 4 (paragraph 10) of the Code: *Compensation for forecasting errors*, read with part 2 (paragraph 2) of the Code: *Principle of fair dealing*.

GCA progress:

The GCA has reviewed the forecasting approach of the ten regulated retailers to assess their alignment with the Code, and has concluded that on the information provided, from March 2016 all retailers are compliant with the Code. The GCA has requested that retailers consider what improvements they could make to the transparency of their communications with suppliers about forecasting, to allow suppliers to meet orders and to anticipate and calculate the full costs of supply.

The GCA has published a statement of best practice which all large retailers should work towards. It is intended to promote better working practices by the retailers, in the spirit of continuous improvement. A summary of the statement is below:

Forecasting best practice statement

The GCA has requested that retailers consider what improvements they could make to the transparency of their communications with suppliers about forecasting, to allow suppliers to meet orders and to anticipate and calculate the full costs of supply. The GCA has indicated this may be achieved by:

- Closer collaboration between retailers and their suppliers, to reduce the impact of inaccuracies, notwithstanding that forecasts may have been very carefully prepared;
- Applying this collaborative approach to develop still more accurate forecasts which can be agreed and against which suppliers can raise any challenges or obstacles for discussion;
- Regularly reviewing forecasting performance to compare forecasts made against orders placed, and to take this into account when deciding whether to impose any charge or penalty, including in relation to short orders and service level performance;
- Explaining to suppliers what components make up any relevant forecast by a retailer;
- Ensuring with suppliers that the risks and costs of fluctuations in supply and demand are fairly shared, reflecting among other things the influence and control each had over the forecasting process, especially where weather is a significant influencing factor.

■ **NOW CLOSED: Consumer complaints**

Description:

Suppliers have reported that the large retailers deal with consumer complaints in different ways. Practices include applying variable rates depending on the seriousness of the complaint and fixed rates while some make no charges. Suppliers are concerned that the large retailers may be overcharging for dealing with consumer complaints and deriving profit from them.

Potential Code breach:

- Consumer complaints fall under part 6 (paragraph 15) of the Code: *No unjustified payment for consumer complaints.*

GCA proposal:

Following a review, the GCA concluded from the information provided that charges where applied appeared to be reasonable and that from August 2015 retailers' policies would appear to be compliant with the Code. In addition, all 10 retailers supported the GCA best practice statement for future complaint handling.

Consumer complaints best practice statement

Retailers agreed they would aim to:

- Ensure that suppliers understand the basis of any consumer complaint charges applied;
- Provide information to suppliers about what's wrong with the product within five days to allow the suppliers to take swift action; and
- Resolve more complaints in-store to keep costs down.

■ **OPEN: Packaging and design charges**

Description:

The GCA has heard allegations that some charges have been applied for photography and packaging design that do not appear to be reasonable. Suppliers who buy their own packaging and design consider the charges made by some large retailers for a product of comparable quality to be expensive. In a number of cases large retailers have been told by suppliers that prescribed or preferred sources are overcharging for packaging. Some suppliers have reported that they have been charged for up to three changes to packaging design in a single year, all at the instigation of the retailer. Another issue raised is rising charges for photography – reportedly as much as four-fold over the past two years. Suppliers remain concerned that the charges made by artwork and design companies approved or designated by some retailers are considerably higher than those available on the open market.

Potential Code breach:

- The GCA considers that the effect of this practice falls under part 4 (paragraph 6) of the Code: *Obligation to contribute to marketing costs*; and part 4 (paragraph 11) of the Code: *Tying of third party goods and services for payment.*

GCA progress:

The GCA held a workshop in September to hear in more detail about the issues suppliers were experiencing with packaging and design charges which appeared to be unreasonable. The workshop proved a very useful mechanism to get to the heart of the issues faced by suppliers and the Adjudicator heard real life examples of groceries suppliers' dealings with retailers and design houses.

It delivered positive news that the position on packaging for suppliers had improved over the past two years. The choice of retailer-approved packaging supply companies has increased, suppliers have been given more flexibility and they now perceive costs to be reasonable. In addition, the frequency of packaging redesigns has decreased and in some cases retailers have funded redesigns themselves.

However, suppliers did report concerns with artwork and design services. Often they had no choice but to use the retailer's designated supplier. Issues included inefficient processes, high costs compared with what they pay for similar work with other artwork and design houses and frequent design changes.

The GCA raised these concerns with the CCOs and requested further information on their charging policies. The GCA is currently reviewing the information provided and will publish the outcome of the review in the next reporting period.

■ OPEN: Request for lump sum payments

Description:

The GCA has been told of requests and demands for lump sum payments, particularly at the end of a financial year. This can be for a variety of reasons, but margin maintenance for the retailer as set out at the start of the year through JBPs is the most frequently quoted. New issues have been reported in this reporting period relating to possible pay to stay arrangements and requests for investment. Sometimes in response a supplier has asked for better positioning or an increased share of shelf space, making this another area which may well be in need of clarification by the GCA. This is linked to the GCA interpretation of indirect requirements.

Suppliers argue that as they have no control over retail price, they should not be asked to make up any shortfall but feel they have to pay to ensure they are not penalised the following year. Large retailers use JBPs in different ways, some see them as a genuine joint planning document that is amended throughout the year.

The GCA has stated that including something in a JBP mid-contract does not necessarily prevent it from becoming a retrospective demand. This would depend on established practice between contracting parties, the degree of genuine joint planning undertaken, the ways in which risk was shared, how the JBP was used and what it comprised in each case. Some suppliers are reporting that JBPs are imposed and not agreed.

Potential Code breach:

- The GCA considers that the effect of this practice falls under part 3 (paragraph 3): *Variation of Supply Agreements and terms of supply*, read with part 2 (paragraph 2) of the Code: *Principle of fair dealing*.

GCA progress:

Over the course of the last year the GCA continued to hear from suppliers that requests for lump sum payments have been made by retailers. Of particular interest were those lump sums that large retailers stated were due under JBPs, margin maintenance agreements and through the supply agreement (such as volume discounts and overrides) agreed at the outset of a commercial deal.

Following the Tesco investigation which considered the issue of payment for better positioning or increased share of shelf space, the Adjudicator has not yet formed her view on this practice. It will now be subject to a consultation on the scope of indirect requirements for payment to secure better positioning or increased shelf space. This will be published shortly. Direct suppliers, in particular, are urged to respond to it.

The GCA considers it important to ensure that both retailers and suppliers understand exactly what their supply agreement is and what the details mean.

The Competition and Markets Authority (the 'CMA') continues to work on the review of retailer practice relating to the provision to suppliers of clear written supply agreements and expects to issue its conclusions in the next reporting period. Following the outcome of the CMA work, the GCA will consider if any action is needed.

■ OPEN: Delay in payments

Description

Suppliers have raised a number of issues relating to delay in payments and this was the main focus in the investigation into Tesco. These include: deductions relating to drop and drive disputes, deductions for alleged short deliveries, duplicate invoicing, deductions for unknown or unagreed items, deductions for current and historic promotion fees and delays in paying entire invoices where only part of an invoice is disputed.

Potential Code breach:

- If disputes arise and are later resolved in favour of the supplier, where unilateral deductions are made at the outset by large retailers against suppliers' current invoices, the GCA considers this falls under part 4 (paragraph 5) of the Code: *Delay in payments*.

Where disputes are not resolved and deductions are made against invoices, the GCA considers this may also fall under part 4 (paragraph 5) of the Code: *Delay in payments*.

GCA proposal:

The GCA reviewed information provided by retailers on their supplier payment performance, as explained in Objective 3, and will continue to monitor the retailer practices.

The GCA report of the investigation into Tesco set out a number of practices found to have taken place and which resulted in delay in payments. The report contained five recommendations that Tesco must follow. The report states clearly for the benefit of all in the sector how the GCA will interpret the practices found to have taken place. The interpretation of the Code set out in the report is a clear statement of the GCA's view as to what is and is not Code-compliant behaviour and as such, is binding on all regulated retailers. While this is being acted upon by all the retailers, this issue will remain live.

■ PREVIOUSLY CLOSED: Forensics: third party audits

Description:

Under the Limitation Act 1980, contracting parties are able to make claims against one another going back up to six years. The GCA heard this was being used proactively by some large retailers to make claims against suppliers for historic invoicing errors or omissions. Suppliers were being asked for significant sums of money with the burden of proof falling on them to show that alleged discrepancies were not valid claims.

The documentary audit trail is often complex and difficult to piece together after a long period of time, during which there would usually have been significant change to both suppliers' and large retailers' systems and staff. In some cases it was reported that deductions were made from invoices/trading accounts without notice to, or the agreement of the supplier. With little or no notice of when these types of deductions would be applied, suppliers reported that they were unable to plan their cash flow effectively. Some sums could be particularly significant for suppliers at certain times of the year and required considerable resource to challenge. In many cases a negotiated agreement was reached to shortcut the potentially lengthy process of establishing the actual payment due or where there was sufficient doubt about the validity of the claim.

Potential Code breach:

- Although it cannot and would not interfere with parties' statutory rights to bring contractual claims, the GCA considers that where unilateral deductions are made by large retailers against suppliers' current invoices, the effect of this practice falls under part 4 (paragraph 5) of the Code: *Delay in payments*.

Outcome:

Eight out of the ten large retailers chose to sign up to the GCA's voluntary commitment to limit the auditing of suppliers' trading accounts in search of missed claims to no more than the current and previous two financial years, on a reciprocal basis with those suppliers. This commitment was announced in June 2014 and those large retailers who signed up have since set out how they would implement it, which they have done over the past year.

The GCA now considers this issue to be closed and has removed it from the Top 5 issues list.

■ PREVIOUSLY CLOSED: Drop and drive – delivery performance

Description:

Suppliers reported that they experienced problems where there was a disparity between what suppliers said they had delivered and invoiced, and what the large retailer said had been received. In some cases large retailers appeared to make automatic deductions from invoices for alleged shortages. These deductions were difficult to challenge, dependent on the haulage method but particularly when using prescribed hauliers and no Proof of Delivery (PODs) had been issued.

Suppliers had informed the GCA that this was a major issue for them. There appeared to be different patterns of deductions among the large retailers in respect of the same suppliers. For example, some large retailers recorded twice the percentage error rate of others when the supplier believed it used exactly the same procedures in packing the two orders for collection by the haulier. The GCA wanted to understand where and how this was happening, at what point in the supply chain and in relation to which products.

Potential Code breach:

- The GCA considers that the effect of this practice falls under part 4 (paragraph 5) of the Code: *Delay in payments*.

Outcome:

The GCA worked with a group of suppliers and the large retailers to gain a more detailed understanding of the issue and how each large retailer's delivery practice worked. Deductions arising from delivery disputes and any resulting delays in payments for goods were of particular interest. With the GCA's support the representative of a large number of suppliers met with the large retailers at the November 2014 group CCO meeting. This led to further discussions between suppliers and the retailers on a one-to-one basis.

The GCA has had positive feedback from retailers and suppliers about the progress being made. The GCA now considers this issue to be closed as an issue in its own right, but continues to monitor progress through the new Top 5 issue of 'delays in payment'.

Retailer action on GCA issues

All retailers have acted on the issues raised by the GCA and the following are examples of the steps some retailers have taken to improve their compliance with the Code.

De-listing

From an Aldi perspective it is vital that we have a strong and positive relationship with the GCA. We try to achieve this by being transparent and open with the GCA office and we appreciate the collaborative approach that Christine has adopted with all of the retailers who fall under her remit.

A successful example of this working in practice would be the GCA position on de-listing. Once this best practice guidance was issued, Aldi adopted it in full, by adding it as an addendum to our own de-listing documents. We then trained all of our Buying team on it as well. This gives comfort to the GCA and, perhaps more importantly, to our suppliers that we follow the Code in all of our business dealings.

Aldi Stores Limited

Charges for services

The results of the GCA's annual survey in 2015 came as a disappointment to Iceland Foods and we were determined to seize the opportunity to improve our relations with our suppliers. At our supplier conference, we reaffirmed our commitment to responding quickly to suppliers and to straight-dealing; if we say we will do something, we will do it. Notably, we changed our contracts with suppliers, so that: (i) we no longer charge suppliers for customer complaints, covering these costs ourselves; and (ii) we only charge for artworks in exceptional circumstances (for example if a supplier instigates a change to a design after sign-off). We hope that suppliers will see a real benefit in these cost changes, which we, in turn, will be able to pass onto our customers.

Iceland Foods Limited

Training on the Code

In 2014/15, the GCA reviewed the Code training material used by M&S to provide annual training to its Buying Team, and other relevant stakeholders. On the basis of the GCA's knowledge of similar content across other retailers they provided useful feedback and observations. In particular, the GCA noted that the training was relatively theoretical and would be improved by being more practical. It also explained that they believed that buyers and other employees would benefit from considering the application of the Code in the context of specific scenarios rather than purely in general terms.

As a result of this feedback M&S engaged its Learning and Development team to update the training and it has now been relaunched with enhanced material and interactive video content. It involves a detailed case study, highlighting a number of key Code issues, which is brought to life by a number of short films in which professional actors portray a buyer and supplier representative. The M&S employees who have received this training have found it more engaging and have commented that the interactive element has provided a valuable additional dimension.

Marks & Spencer plc

Consumer Complaints

Last year the Adjudicator raised the issue of charging suppliers for consumer complaints as a new 'Top 5' concern across the sector. We provided details of our standard cost recovery process and explained why suppliers were re-charged when customers returned products. The Adjudicator accepted that the charges were not in breach of the Code however we are always looking to improve our processes and so we agreed to review. We listened to the feedback we received and simplified our handling procedure. As a result we have reduced the cost and passed on the benefit to suppliers. We are working on capturing better information about faulty goods and sharing that with suppliers so together we can improve our customer experience.

Wm Morrison Supermarkets plc



Christine Tacon

Groceries Code Adjudicator
and Accounting Officer

1 June 2016

ACCOUNTABILITY REPORT

Corporate Governance report

Format of the accounts

These accounts have been prepared in accordance with the direction from the Secretary of State for Business Innovation and Skills.

Financial position

The GCA's expenditure for 2015/16 was £1,785,741 increased from £683,329 in 2014/15. Staff costs were £453,403, increased from £383,788 in 2014/15. The increase in staff costs and expenditure principally reflects the investigation into Tesco but also the increase in secondment resource and external support provided under contract. Staff costs as a proportion of total expenditure equated to 25%. Other operating costs included finance, ICT and accommodation. Remuneration of the GCA is in the range £65-£70,000, a pro rata from an annual salary within the band of £115-£120,000 for a full-time equivalent.

The levy was set at £1,100,000 from the large retailers, which was an increase from the 2014-15 levy of £800,000. Total expenditure was higher than the levy as 85% of the cost of the investigation was recovered from Tesco. This amounted to £1,065,513.

Funding the GCA

The GCA is funded by a levy on the 10 large retailers. This takes two forms: (i) a general levy on the large retailers; and (ii) recovery of costs of arbitrations undertaken, and of those investigations where one or more retailers are found to have breached the Code.

The Act states that the consent of the Secretary of State is required before a levy can be imposed on the retailers.

The levy methodology for this financial year was approved by the Secretary of State at a level of £1,100,000. The levy calculation for 2015/16 and onwards will be based on actual costs (salaries, accommodation and other known costs) together with a best estimate of the forecast costs of investigations and other anticipated expenditure. Unspent levy income is offset against the levy for the following year and therefore the net levy request for 2015/16 was £98,000 for each retailer. For the financial year 2016/17, the GCA made a consideration and unspent levy income of £380,000 will be offset against the levy on the retailers, in equal amounts.

The GCA had previously secured an agreement from the Secretary of State to a loan facility of £250,000 should the GCA find itself temporarily short of reserves during a financial year, generally as a result of funding an investigation.

A loan was made to the GCA by BIS in this financial year to deal with short-term cash flow challenges resulting from the investigation into Tesco. The loan was paid to the GCA in January and repaid to BIS in February, on conclusion of the investigation and recovery of a proportion of the investigation costs from the retailer.

The levy methodology approved by the Secretary of State allows the GCA to vary the levy applied to retailers. Proposals for 16/17 onwards are in the final stages of refinement and will be submitted to the Secretary of State for his consideration in the next reporting period. Details will be published on the GCA website once approved.

Investigation costs

In establishing the GCA, it was anticipated that investigative resource would come from the public sector and most likely from similar bodies such as the CMA. The GCA experience in recruiting secondees to staff positions as well as early indications from the CMA of the unlikelihood of providing secondees for investigations has led to the conclusion that resources for investigations must come from external sources. The consequence of this decision has been that investigative costs were higher than originally forecast when setting the 2015/16 levy. The levy for 2016/17 will make provision for future investigation costs based on experience from the Tesco investigation.

The GCA is able to apply the cost of an investigation to a retailer or retailers found to have breached the Code. Until an investigation has concluded, it is not possible to anticipate any apportionment of costs between the retailer or retailers under investigation and all retailers as funders of the general levy.

Accounts

The CMA provided basic accounts support to the GCA. This included all transactional support on accounts payable and receivable. Preparation of the annual financial statements of GCA accounts was carried out by specialist external resource. The GCA manages its own government bank account, approves all invoices for payment by the CMA on our behalf and reimbursement of claims to the CMA.

Going concern

The GCA will receive levy income for 2016/17 to fund its activities. It has been accordingly considered appropriate to adopt a going concern basis for the preparation of these financial statements. Budget pressures are possible should investigations or arbitrations result in accruals where the GCA has not recovered its costs within the year. As stated in the *Funding the GCA* section above, the GCA has secured a loan agreement with BIS that will be put in place should the GCA require short-term funding to ensure that the GCA has sufficient funds to meet its costs in 2016/17.

VAT

The GCA is not registered for VAT. Departments that second employees to the GCA have applied different VAT treatments and the GCA sought a determination from HMRC on the VAT treatment from the Department charging VAT on salaries and associated expenses. The advice given is that the GCA must address issues of interpretation with individual departments. It is disappointing that

a resolution has not been found in this reporting period. This will now be taken forward and a consistent approach on VAT treatment is expected in time for the next Annual report and Accounts.

Audit

The auditor of the GCA is the Comptroller and Auditor General. Details of the audit fee for the period ended 31 March 2016 are disclosed in note 3 to the Financial Statements. The fee is £7,000, reduced from £9,750 in 2014/15. No internal audit was carried out in financial year 2015/16. The GCA had committed to establish a means for internal audit in forthcoming years. This will be included in the governance review which will be carried out in 2016/17.

Payment practices

The GCA is committed to following the Better Payments Practice Code in payments to suppliers, in particular, paying all invoices within a maximum of 30 days. The GCA approved and processed 99% of invoices within 30 days of receipt. The CMA provides the GCA with an invoice payments service and therefore the GCA relies on the CMA to process GCA invoices in a timely manner. The CMA payment system is now fully in place and the operational performance has improved considerably since 2014/15. This provides the GCA with greater assurance in meeting commitments to the Better Payments Practice Code. The GCA is considering options to manage its own payments system and this will be reported in the next Annual report and Accounts.

Sustainability

The GCA does not fall within scope of the Greening Government Commitments. As a tenant of the CMA, reporting associated with the GCA will be incorporated into the CMA Annual Report and Accounts.



Christine Tacon

Groceries Code Adjudicator
and Accounting Officer

1 June 2016

Director's report

The Groceries Code Adjudicator is a corporation sole and is an independent regulator sponsored by BIS.

As Accounting Officer, I am responsible for ensuring that the GCA has an appropriate governance structure and systems to ensure I meet my statutory obligations. I am personally responsible for safeguarding the public funds for which I have charge; for ensuring propriety and regularity in the handling of public funds; and for the day-to-day operations and management of the GCA as set out in Managing Public Money. The GCA governance structure combines efficient decision making with accountability and transparency.

As Accounting Officer, I chair the GCA Executive Board which is my governance body responsible for ensuring that the GCA's statutory obligations are met and that decision-making and financial management are carried out appropriately and that the GCA office is managed effectively. I also chair the Audit and Risk Sub-committee and the Operations Board which report to the Executive Board. I am personally responsible for promoting and safeguarding regularity, propriety, affordability, sustainability, risk, and value for money; and accounting accurately and transparently for the GCA's financial position and transactions.

Executive Board

Ensures that the GCA's statutory obligations are met and that decision-making and financial management are carried out appropriately.

Members: The Adjudicator; Head of Office; and Chief Legal Adviser

Audit and Risk Sub-committee (from March 2016)

Reviewing and monitoring risks and ensuring sound financial management of the GCA in meeting its statutory purposes.

Members: The Adjudicator; Head of Office; and Chief Legal Adviser

Operations Committee

Ensures the GCA has the right resources, efficient financial management and has the appropriate procedures in place for the effective running of the office.

Members: The Adjudicator; Head of Office; Investigations Manager; Compliance Manager; Office Manager

Register of interests

A register of interests of the GCA is maintained by the Secretary to the Executive Board and is available on the GCA website. The Adjudicator is the only Senior Civil Servant level member of the Executive Board and is the only person subject to disclosure rules.

Personal data

All security breaches and near misses are reported to the Audit and Risk Sub-committee and the Executive Board with individual breaches considered and escalated as appropriate dependent on their seriousness.

During the reporting period one incident was identified which required notification to the Information Commissioner's Office (ICO) where external party information was accidentally disclosed. The parties were appropriately notified as soon as the breach was known and as an immediate response to the breach, a number of precautionary measures were introduced and remain in place. Internal procedures have been reviewed and I will invite the ICO to audit GCA procedures in the next reporting period. The details are below:

	Details
Date of incident	September 2015
Nature of incident	Disclosure of parties to a possible arbitration
Nature of data involved	An acknowledgement letter containing details of named individuals in a retailer and a supplier
Number of people potentially affected	2
Notification steps	The ICO was notified and determined that there was no personal data breach and therefore no further action was taken.

Christine Tacon.

Christine Tacon

Groceries Code Adjudicator
and Accounting Officer

1 June 2016

Statement of the GCA Accounting Officer's responsibilities

The Groceries Code Adjudicator Act 2013 (The Act), at Schedule 1, paragraph 15(1), specifies that the Groceries Code Adjudicator (GCA) must keep proper accounts and proper records in relation to the accounts. For each financial year the Adjudicator must prepare a statement of accounts in respect of that financial year detailing the resources acquired, held or disposed of during the year and the use of resources by the GCA during the year. These must be published and submitted to the Secretary of State for Business Innovation and Skills who will be responsible for laying the accounts before Parliament.

The accounts follow the form and the basis set out in the accounts direction. The financial statements are prepared on an accruals basis and must give a true and fair view of the GCA's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing financial statements the GCA is required to comply with the requirements of the Government Financial Reporting Manual and in particular:

- (i) Observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- (ii) Make judgements and estimates on a reasonable basis;
- (iii) 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 financial statements; and
- (iv) Prepare the financial statements on a going concern basis.

The Accounting Officer for the Department of Business Innovation and Skills has designated the Groceries Code Adjudicator as the Accounting Officer for the GCA. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the levy funding (classified as public finances) for which the Accounting Officer is answerable, for keeping of proper records and for safeguarding the GCA's assets, are set out in the Accounting Officer's Memorandum issued by the Treasury and published in *Managing Public Money*.

Governance Statement

The Groceries Code Adjudicator responsibilities

The GCA was formally established on 25 June 2013 by the Groceries Code Adjudicator Act 2013 (the Act). It was set up to ensure supermarkets treat their suppliers lawfully and fairly. The GCA was appointed by the Secretary of State for Business Innovation and Skills. It is a corporation sole based in the UK with a sole employee; the Adjudicator.

The GCA is responsible for monitoring and encouraging compliance with and enforcing the Groceries Supply Code of Practice (the Code), introduced in 2010. It applies to the 10 groceries retailers with UK annual groceries turnover of more than £1 billion (the large retailers) and their relationships with their direct suppliers. These are: Aldi Stores Limited, Asda Stores Limited, Co-operative Group Limited, Iceland Foods Limited, Lidl UK GmbH, Marks & Spencer plc, Wm Morrison Supermarkets plc, J Sainsbury plc, Tesco plc, and Waitrose Limited.

My statutory purposes set out in the Act are to:

- Provide advice to both suppliers and large retailers on matters relating to the Code;
- Arbitrate in disputes between suppliers and large retailers;
- Investigate issues to ascertain whether there has been a breach of the Code;
- Enforce the Code;
- Impose sanctions and other remedies for breaches of the Code; and
- Publish an annual report on the Adjudicator's activities.

The Groceries Code Adjudicator is the accounting officer of the GCA. Governance of the GCA is carried out through an Executive Board, a new Audit and Risk Sub-committee and an Operations Board.

Governance framework: GCA Executive Board

The Executive Board discusses and takes strategic decisions which govern the actions of the GCA office. The creation of the Operations Board in February 2014 has allowed the Executive Board to focus on strategic issues. There are two other members of the Executive Board; the Head of Office and the Chief Legal Adviser. All members of the Executive Board are female.

The Executive Board meets every 6 – 8 weeks and met 8 times in this reporting period with full attendance each time. There are standing items for discussion at each meeting. These are: forward look, work plan, financial statement and resources. Other policy and operational agenda items are scheduled as required.

The Board ensures the GCA meets the statutory obligations set out in the Act.

The Board follows the Corporate Governance Code of Good Practice 2011 but applies it in a way proportionate to the nature and size of the GCA.

Governance framework: GCA Operations Board

The Operations Board dealt with all responsibilities associated with the running of the GCA office. Its main task is to ensure that the GCA has the right resources, practices, effective and efficient financial management and has the appropriate procedures in place for the effective running of the office. It is chaired by the Adjudicator and other members are: Head of Office; Investigations Manager, Compliance Manager (from July 2015) and Office Manager. It met seven times in this reporting period with full attendance at each meeting. Five members of the Operations Board are female and one male and two from an ethnic minority background.

The Operations Board meets every 4-6 weeks and at least 2 weeks prior to the Executive Board. Its key responsibilities are to ensure that the strategic objectives set by the Executive Board are reflected in the operations and financial planning of the office.

Risk and assurance

The Executive Board is responsible for identifying and categorising risks and the new Audit and Risk Sub-committee, effective from March 2016, is responsible for reviewing and monitoring these risks and ensuring sound financial management of the GCA in meeting its statutory purposes.

The risk register will be reviewed by the Audit and Risk Sub-committee twice each year and by the Operations Board at alternate meetings. There have been two full reviews of the risk register this year, once by the Executive Board and the second review by the newly formed Audit and Risk Sub-committee.

Key Risks

The corporate risks are categorised by theme: financial; recruitment; reputation; legislation; legal; stakeholder engagement; and knowledge management.

The events of this reporting period have altered the key risks faced by the GCA. Important influences were the investigation activity and the information security breach. The key risks for the GCA are:

The collaborative approach could break down with some retailers: Relations between retailers and the GCA become strained with retailers less willing to act on informal requests to change practices/behaviours. To mitigate the risk the GCA has released a policy document setting out the different forms of interpretative publication it will issue, when each approach will be used and the GCA's expectation of action by retailers in relation to each of them, translated into relative retailer compliance risk. These are: interpretative guidance; best practice statements; and retailer voluntary commitments.

GCA knowledge is not managed appropriately: Internal systems do not adequately adapt to an increasing volume and complexity of issues raised and the GCA fails to appropriately record all evidence that is presented by suppliers and others in sufficient detail to allow it to properly and systematically inform GCA actions. There is also a risk that information is held by individuals rather than corporately. To mitigate the risk new protocols have been introduced to ensure that the GCA database is efficiently maintained and that all staff record and reference all evidence that is submitted to the GCA.

Confidence in the Adjudicator is low: The GCA's assurance to retailers and suppliers is undermined by the accidental disclosure of confidential information by email, media or in

conversation. In this reporting period information held by the GCA was accidentally disclosed by email: the GCA dealt with the issue swiftly on learning of the mistake, informed and apologised to the parties involved and reported the incident to the ICO. A full internal review was carried out, under the governance of the Executive Board. To mitigate future risk internal procedures have been strengthened and training to reinforce the importance of handling confidential information appropriately is underway. The GCA has also published a publication and data retention policy in line with ICO and Cabinet Office guidelines.

Statement by the Adjudicator

As Accounting Officer, I ensure that the GCA has an appropriate governance structure to meet the requirements of the office and to provide the right level of control over decision making. A formal review of the effectiveness of the Board was carried out in the Autumn of 2014. Given the structure and remit of the GCA and its Boards, I decided that, under business as usual conditions, a bi-annual review of board effectiveness is appropriate. The Executive Board will consider whether a more frequent review is required. A review of Board effectiveness will be carried out in the next reporting period.

This year I considered the Corporate Governance good practice guidance in relation to establishing an audit and risk committee. Previously I took the view that on proportionality grounds a separate committee was not required and that the Executive Board would deal with audit and risk issues. I have reconsidered the guidance, the practices followed by other similar-sized organisations and the structure of the GCA and decided that a Sub-committee of the Executive Board should be established. The Audit and Risk Sub-committee will comprise the same members as the Executive Board and will meet twice each year. The Sub-committee is responsible for reviewing and monitoring risks and ensuring sound financial management of the GCA. The Audit and Risk Sub-committee met once this reporting period.

So far as I am aware, there is no relevant audit information of which the auditors are unaware.

I have considered the evidence that supports this Governance Statement and I am assured the GCA has a strong system of controls to support the achievement of my statutory purposes. I therefore have no disclosures of control weaknesses to make for the 2015/16 financial year.



Christine Tacon

Groceries Code Adjudicator
and Accounting Officer

1 June 2016

Remuneration and staff report (audited)

Overview

The GCA has no remuneration responsibilities. The remuneration of the Groceries Code Adjudicator is determined by the Secretary of State for Business Innovation and Skills under Schedule 1 of the Act. The Groceries Code Adjudicator is designated as Office Holder and is a corporation sole.

The salary of the GCA is set by BIS. The GCA team, all of which are secondees from the public sector, retain the terms and conditions of their parent departments. Remuneration decisions are taken by the relevant department of the secondee. The GCA's salary payments in this financial year were in the band of £65-£70,000, a pro rata from an annual salary within the band of £115-£120,000 for a full-time equivalent.

The GCA is a pensionable position. Other pension commitments are met by the home departments of the secondees to the GCA.

No calculation of a median staff pay figure has been made for the year as there is only one member of staff.

Benefits in kind

No allowances, bonuses or benefits in kind have been made to the GCA.

Remuneration (salary, benefits in kind and pensions)

Single total figure of remuneration								
Public appointee	Salary (£'000)		Bonus payments (£'000)		Pension benefits (to nearest £1,000)		Total (£'000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Christine Tacon	65-70 (£115-£120,000 for a full time equivalent)	65-70 (£110-£115,000 for a full time equivalent)	–	–	39,000	18,000*	105-110	85-90

*Estimated pension calculation, as the information for 2014-15 was not available due to the introduction of a new pension system at My Civil Service Pension (the pension provider)

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 accrued payments made by the GCA and thus recorded in these accounts.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. Full details of the CETV were not available in 2014/15 due to the introduction of a new pension system at My Civil Service Pension (the pension provider). This information has now been obtained and has been included in the table below.

Pension Benefits						
Officials	Accrued pension at age 65 as at 31 March 2016 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2016	CETV at 31 March 2015	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
	4	2	62	37	25	0

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). The GCA is in 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 3.5% and 8.85% for premium, classic plus and nuvos. In nuvos a member builds up a pension based on his 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% 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 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 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

New Career Average pension arrangements were introduced from 1 April 2015 and the GCA joined the new scheme. Further details of this new scheme are available at <http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/>

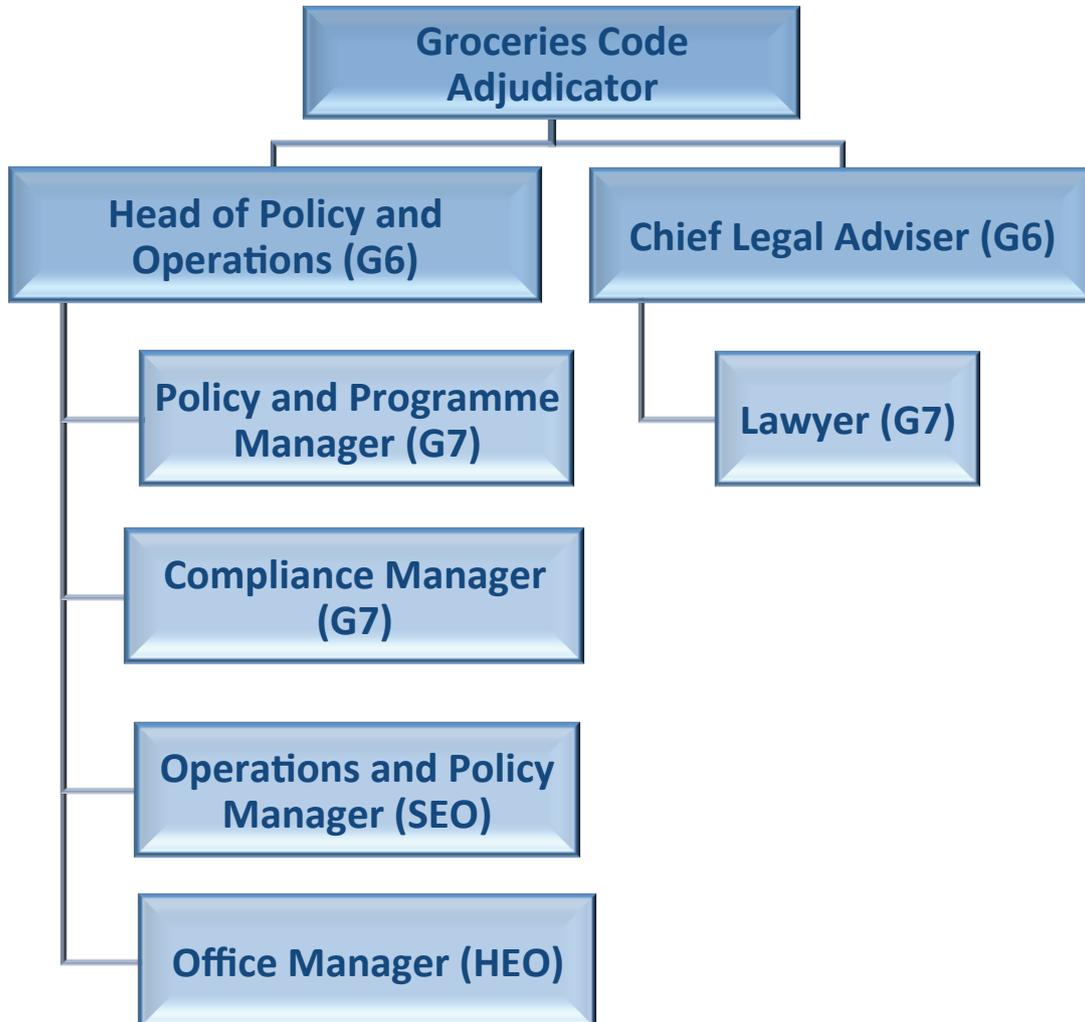
Staff report

The GCA is designated as a corporation sole and therefore the only employee of the GCA. All staff supporting the GCA are seconded from public sector organisations. The guiding principle in resourcing the GCA has been to recruit the resources needed in a phased way based on the anticipated workload. In the model of the GCA designed by the BIS it was predicted that a staff of eight would be required, including the GCA. Staff costs for 2015/16 were £453,403 comprising: £93,811 permanent staff costs; and £359,592 of other staff costs for secondees and temporary staff.

The GCA is employed for three days each week and is a senior civil servant equivalent and is female. There is a team of 5 secondees: Chief Legal Adviser, who works four days each week, a full-time Head of Office, a full-time Office Manager, a full time Compliance Manager (from July 2015) and a full-time Investigations Manager (until February 2016). Through the year, temporary personal assistants have been engaged when required and mainly on a part-time basis. Every effort has been made to ensure that the office has the right resources and has a representative gender and ethnicity balance. In the GCA team there are five females and one male and two from ethnic minority backgrounds.

A review of the resources required to meet the GCA objectives was carried out this reporting period. The GCA expects to largely be in investigative mode from now on, if not on carrying out investigations then certainly working on actions stemming from investigations. The GCA has decided that a new structure is required to meet the anticipated future activities.

The GCA Organisation chart for 16/17:



With the departure of the investigations manager at the end of the secondment period that role has been re-defined to focus on policy and programme management. Recruitment of the Policy and Programme Manager is complete and the new secondee will join the GCA in April 2016.

Additional policy and operational support is also needed. The current Office Manager has been temporarily promoted into a new Policy and Operations Manager post and the vacant PA post has been changed to an Office Manager and recruitment is underway. The GCA will continue to use temporary staff when required.

The need for legal advice on strategic risk management, new issues, and investigations and arbitrations is considerable. The experience from the recent investigation has reinforced the need for additional legal support to the Chief Legal Adviser. Since finding suitably-qualified lawyers able and willing to be secondees to the GCA from elsewhere in the public sector has proved very difficult, this will be kept under review and additional external legal support may need to be engaged from time to time, probably for specific activities, as with the Tesco investigation.

It was reported last year that extensions had been requested to the two year secondment agreements of the two senior positions which were due to expire in June 2015. These were agreed with the home departments with secondment periods ending in June 2017. An extension to the Office Manager secondment (now Policy and Operations Manager) for a further two years has also been agreed, until October 2017.

The Head of Office secondee has left the civil service, the recruitment of a new Head of Office is complete and the new secondee joined the GCA in mid-March 2015 to allow for a handover. The new Head of Office is male.

Communications advice is provided as required by a communications consultant appointed following a competitive tender.

Sickness absences

There has been no sickness absence at the GCA.

Consultancy expenditure

The GCA has no consultancy expenditure in this reporting period. Transactions listed in Note 3 of the Accounts comprise off payroll services and a procurement contract for the annual GCA survey.

Reporting on the tax arrangements of public sector appointees

All government departments and their arm's length bodies that employ individuals 'off payroll' for more than six months have to report to HM Treasury about the financial arrangement, to make sure it is transparent and that the individual in question is paying the right amount of tax and National Insurance. We have reviewed the way we make these appointments to ensure our processes are robust. We have the right to request assurances, and do so, from the individual in relation to monies received from HMRC. We can terminate any contract if these assurances are not provided.

The table below sets out the status of off-payroll contractors engaged by the GCA using the standard reporting format. This records new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months.

	Number of contractors
No. of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	1
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	1
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	
No. for whom assurance has been requested	1
Of which...	
No. for whom assurance has been received	1

Christine Tacon.

Christine Tacon

Groceries Code Adjudicator
and Accounting Officer

1 June 2016

Parliamentary accountability and audit report

Details of the GCA statutory reporting requirements are set out in the performance report.

Wider government and parliamentary input

The GCA is fully committed to meeting its wider duties as a public body. In this reporting period the GCA has fulfilled these duties in the following ways:

The Regulators' Code

The GCA is a non-economic regulator which must have regard to the Regulators' Code. The Regulators' Code obliges the GCA to follow stated principles when developing policy or operational procedures and when setting standards or giving guidance which informs GCA regulatory activity.

Growth duty

The GCA is committed to following the Government's better regulation agenda and in the GCA will take account of the economic impact of its regulatory activities on growth. This follows the requirement in the Deregulation Act 2015, Section 108 stipulates that:

- (1) A person exercising a regulatory function to which this section applies must in the exercise of the function, have regard to the desirability of promoting economic growth.
- (2) Consider the importance for the promotion of economic growth of exercising the regulatory function in a way which ensures that:
 - (a) Regulatory action is taken only when it is needed, and
 - (b) Any action taken is proportionate.

Review of business appeals procedure

The Small Business, Enterprise and Employment Act 2015 has been introduced which contains the introduction of a new review mechanism for the appeals procedure of each non-economic regulator, which includes the GCA. The new law provides for the appointment of a reviewer by the Secretary of State to:

- (a) Review the effectiveness during each reporting period of the procedures (both formal and informal) of the relevant regulator for handling and resolving complaints and appeals made by businesses to the regulator in connection with the exercise by the regulator of the function, and
- (b) Prepare a report about the findings of the review.

The GCA will work with BIS on the implementation of this new requirement when plans are in place.

Select Committees

The GCA has given evidence to one Select Committee this reporting period.

Environment, Food and Rural Affairs Committee

On 2 December 2015, the GCA gave evidence to the Environment, Food and Rural Affairs Committee in its inquiry into Dairy Prices, announced on 17 September 2015. The GCA was specifically asked: *“How effective is the regime established under the Groceries Code Adjudicator Act 2013 in ensuring fair and stable prices for dairy and meat producers?”*

The GCA submitted written evidence and was also called to appear before of the Committee.

A record of the GCA’s evidence is available on Hansard. In summary, the main reply to the Committee was that neither the Groceries Supply Code of Practice nor the Act allows the GCA to influence prices. The GCA’s evidence focused on the following points:

The GCA was formed by the Groceries Code Adjudicator Act 2013 and has a very clear remit, which is to monitor, enforce and encourage compliance with the Groceries Supply Code of Practice.

The Adjudicator made it clear in her evidence that: *“The Code does not cover price setting nor relationships between indirect suppliers and the supermarkets. Therefore I do not have any powers to consider concerns about how the price paid by supermarkets to their direct suppliers is determined, nor the price paid indirectly via a wholesaler or processing organisation.*

The Code was created in response to the Competition Commission’s market investigation in 2009, was not established with the intention of ensuring fair and stable prices for milk producers.”

The EFRA report into dairy prices was published on 2 March 2016. The Committee praised the Adjudicator for the positive impact she has had on the relationship between retailers and suppliers. It also *recommended that the Department for Business, Innovation and Skills consider how to extend the Groceries Code Adjudicator’s remit to incorporate, both direct and indirect suppliers to the major UK retailers.*

Visit by the Northern Ireland Committee for Agriculture and Rural Development

The Adjudicator met members of the Northern Ireland Committee for Agriculture and Rural Development, including Chairman William Irwin MLA, during a fact-finding visit to London. The Committee requested the meeting to discuss *“the current state of dairy farming and the link with the food supply chain”*.

The Adjudicator discussed her role and recent activities and made similar points as those made to the Environment, Food and Rural Affairs Committee regarding pricing. She encouraged the MLAs when meeting suppliers in Northern Ireland to speak about the value of training in the Code and of bringing issues to the GCA’s attention.

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Groceries Code Adjudicator for the period ended 31 March 2016 under the Groceries Adjudicator Act 2013. The financial statements comprise: the Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; 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 and Staff Report and the Parliamentary Accountability Disclosures that is described in that report as having been audited.

Respective responsibilities of the Board, 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 Groceries Code Adjudicator Act 2013. 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 Groceries Code Adjudicator's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Groceries Code Adjudicator, 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 Groceries Code Adjudicator's affairs as at 31 March 2016 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Groceries Code Adjudicator Act 2013 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited has been properly prepared in accordance with Secretary of State directions made under the Groceries Code Adjudicator Act 2013; and
- the information given in the Performance Report, and Accountability Report 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 and Staff Report and the Parliamentary Accountability disclosures 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

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

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

27 June 2016

FINANCIAL STATEMENT

Format of the accounts

These accounts have been prepared in accordance with the direction from the Secretary of State for Business Innovation and Skills.

Statement of Comprehensive Net Income for the year ended 31 March 2016

	Note	Year ending 31-Mar-16 £	Period ending 31-Mar-15 £
Expenditure			
Staff costs	2	453,403	383,788
Other expenditure	3	1,332,338	299,541
		<u>1,785,741</u>	<u>683,329</u>
Income			
Other income	4	(1,785,741)	(683,329)
Net Expenditure		<u>—</u>	<u>—</u>
Net expenditure after interest		<u>—</u>	<u>—</u>
Net expenditure after interest and tax		<u>—</u>	<u>—</u>
Total Comprehensive Expenditure for the year ended 31 March		<u>—</u>	<u>—</u>

The notes on pages 61 to 67 form part of these financial statements.

There was no other comprehensive expenditure.

Statement of Financial Position as at 31 March 2016

	Note	As at 31-Mar-16 £	As at 31-Mar-15 £
Current assets:			
Trade and other receivables due within one year	6	–	11,151
Cash and cash equivalents	7	592,142	394,509
Total current assets		592,142	405,660
Total assets		592,142	405,660
Current liabilities:			
Deferred income	8	383,585	123,813
Trade and other payables	8	208,557	281,847
Total current liabilities		592,142	405,660
Non-current assets less current liabilities		–	–
Assets less liabilities		–	–
Taxpayers' equity			
Income and expenditure reserve		–	–
		–	–

The notes on pages 61 to 67 form part of these financial statements.

Christine Tacon.

Christine Tacon

Groceries Code Adjudicator
and Accounting Officer

1 June 2016

Statement of Cash Flows for the year ended 31 March 2016

	Year ending 31-Mar-16	Period ending 31-Mar-15
Note	£	£
Cash flows from operating activities		
Net deficit after interest	–	–
Decrease in receivables	6 11,151	–
Increase in payables	8 186,482	221,895
Net cash outflow from operating activities	<u>197,633</u>	<u>221,895</u>
Net increase in cash and cash equivalents in the period	7 197,633	221,895
Cash and cash equivalents at the beginning of the period	394,509	172,614
Cash and cash equivalents at the end of the period	592,142	394,509

The notes on pages 61 to 67 form part of these financial statements.

Statement of Changes in Taxpayers' Equity

	I&E Reserve £	Total Reserves £
	<u> </u>	<u> </u>
Balance as at 31 March 2014	–	–
Changes in Taxpayers' Equity comprehensive income for the year		
Comprehensive income for the year	–	–
Balance as at 31 March 2015	<u> </u>	<u> </u>
Changes in Taxpayers' Equity comprehensive income for the year		
Comprehensive income for the year	–	–
Balance as at 31 March 2016	<u> </u>	<u> </u>

The GCA holds no reserves. GCA is levy funded and unspent levy is reflected in deferred income.

Notes to the financial statements

1. Accounting policies

These financial statements have been prepared in accordance with the 2015/16 Government Financial Reporting Manual (FReM). 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 is judged to be the most appropriate to the particular circumstances of the GCA for the purposes of giving a true and fair view has been selected. The particular policies adopted by the GCA for the purpose of financial reporting are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

There were no new standards issued up to 31 March 2016 and not applied, that would materially affect the resource accounts. The GCA has also not adopted any standards early.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property assets.

(a) Income

General levy

The Groceries Code Adjudicator Act 2013 [section 19] provides that the full costs of the GCA will be funded through a levy on the 10 designated retailers with a UK annual groceries turnover in excess of £1billion, as per the Code provisions set out by the Competition Commission. These are: Aldi Stores Limited, Asda Stores Limited, Co-operative Group Limited, Iceland Foods Limited, Lidl UK GmbH, Marks & Spencer plc, Wm Morrison Supermarkets plc, J Sainsbury plc, Tesco plc, and Waitrose Limited.

Arbitration and investigations

The GCA will, in the great majority of cases, recoup the full cost of arbitrations, in accordance with Article 11(7) of the Groceries (Supply Chain Practices) Market Investigation Order 2009. All costs of the arbitrator are to be borne by the retailer which is the party to the arbitration; unless the arbitrator decides that the supplier's claim was vexatious or wholly without merit, in which case costs will be assigned at the arbitrator's discretion. The other costs of the arbitration, such as the parties legal costs, can be apportioned in the final award.

The GCA has the discretion to charge the applicable retailer(s) the full costs of an investigation which results in a finding that there has been a breach of the Code. It is expected that this will be the approach adopted. Any appeals will be funded initially from the general levy. If the GCA is successful, it would expect to recover most of its costs from the losing party. Costs required to be paid are recoverable by the Adjudicator as a debt.

It is recognised in full in the year that it is billed, and that the adjudicator may repay some or all of any surplus income, in such situation, these repayments will be shown as a debt in the GCA accounts. Further information on the levy income is contained in the GCA's Annual Report.

(b) Going concern

The GCA will receive levy income for 2016/17 to fund its activities. It has been accordingly considered appropriate to adopt a going concern basis for the preparation of these financial statements.

(c) Financial instruments

Financial instruments were initially measured at fair value plus transaction costs unless they were carried at fair value through profit and loss in which case transaction costs are charged to operating costs.

The categorisation of financial assets and liabilities depends on the purpose for which the asset or liability was held or acquired. Management determined the categorisation of assets and liabilities at initial recognition and re-evaluated this designation at each reporting date.

Financial assets

The GCA held financial assets, which comprised of cash at bank and receivables. These were non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Since these balances were expected to be realised within 12 months of the reporting date, there was no material difference between fair value, amortised cost and historical cost.

Financial liabilities

The GCA held financial liabilities, which comprised of payables and deferred income. Since these balances were expected to be settled within 12 months of the reporting date, there was no material difference between fair value, amortised cost and historical cost.

(d) Reserves

Income and expenditure reserve

The GCA accounted for its accumulated deficit in the income and expenditure reserve.

(e) Expenditure

All expenditure is recognised on an accruals basis. Purchases of capital items over £1000 will be recognised in the accounts as an asset and appropriately depreciated or amortised.

2. Staff numbers and related costs

The cost of staff remuneration was:

	Year ending 31-Mar-16 £	Year ending 31-Mar-16 £	Year ending 31-Mar-16 £	Period ending 31-Mar-15 £
	<i>Permanent staff</i>	<i>Other staff</i>	<i>Total</i>	<i>Total</i>
Wages and salaries	69,403	280,439	349,842	283,113
Social security costs	7,334	27,099	34,433	30,032
Pension costs	17,074	52,054	69,128	70,643
Total	<u>93,811</u>	<u>359,592</u>	<u>453,403</u>	<u>383,788</u>

- (i) The remuneration of the Groceries Code Adjudicator is the only permanent staff cost.
- (ii) There have been no severance payments in year.
- (iii) VAT is charged on salaries where levied by the seconding organisation.
- (iv) Agency staff is 0.6 FTE and £17,000 of expenditure of Other Staff costs

Average number of staff employed

The average annual number of full-time-equivalent staff (FTE), including secondees from other government departments, other organisations, staff employed on short-term contract and temporary staff, was:

	2015/16	2014/15
	FTE	FTE
Employed on references:		
Permanent staff	0.6	0.6
Other staff	<u>4.7</u>	<u>3.7</u>
	<u>5.3</u>	<u>4.3</u>

- (i) The total number of staff reported are average FTE's for the year.

3. Other expenditure

	Year ending 31-Mar-16 £	Period ending 31-Mar-15 £
Tesco Investigation	1,130,082	–
Rentals under the terms of occupation	15,313	15,054
Running costs – Victoria House	9,791	9,460
Survey & Consultancy	67,683	79,609
Legal costs	9,073	88,206
Licences	1,950	1,496
Telecommunications and Internet charges	–	3,198
Photocopying & Printing	9,259	7,924
Press Cuttings	1,940	5,666
Travel, subsistence and hospitality:	5,313	4,144
Staff training	–	1,860
Subscriptions	495	967
Corporates Services from CMA & BIS	37,209	34,089
Office equipment	13,900	–
Conferences	18,986	36,736
Arbitration	1,936	–
Audit fee	7,000	9,750
Other expenditure	2,409	1,382
Total other operating charges	<u>1,332,338</u>	<u>299,541</u>

- (i) Telecommunications and internet charges for 15/16 have been included in Corporate Services from CMA & BIS
- (ii) Office equipment includes an amount of £9,545 for equipment costs that had been invoiced by the Competition Commission in 13/14 and treated as an outstanding debtor.

4. Income

	Year ending 31-Mar-16 £	Period ending 31-Mar-15 £
Tesco Investigation	1,065,513	–
Levy raised	980,000	660,000
Deferred income	-259,772	23,329
Income	<u>1,785,741</u>	<u>683,329</u>

5. Financial instruments

The majority of financial instruments relate to contracts to buy non-financial items in line with the GCA's expected purchases and usage requirements and the GCA was therefore exposed to little credit, liquidity or market risk.

6. Trade receivables and other assets

	As at 31-Mar-16 £	As at 31-Mar-15 £
Amounts falling due within one year		
Other debtors	–	11,151
Prepayments	–	–
	<u>–</u>	<u>11,151</u>

Transactions are with central government.

7. Cash and cash equivalents

	As at 31-Mar-16 £	As at 31-Mar-15 £
Balance at 1 April	394,509	172,614
Net change in cash and cash equivalent balances	<u>197,633</u>	<u>221,895</u>
Balance at 31 March	<u>592,142</u>	<u>394,509</u>
The following balances at 31 March were held at:	592,142	394,509

Government Banking Service

The GCA's bank account was a current account with the Government Banking Service.

8. Trade payables and other liabilities

Amounts falling due within one year

	As at 31-Mar-16 £	As at 31-Mar-15 £
Deferred income	383,585	123,813
Other payables & accruals	208,557	281,847
	<u>592,142</u>	<u>405,660</u>
Analysis of other payables & accruals		
Balances with other central government organisations	134,208	168,190
Balances with bodies external to government	74,349	113,657
	<u>208,557</u>	<u>281,847</u>

Transactions are with central government and the deferred income with the retailers.

9. Capital commitments

The GCA had no capital commitments.

10. Commitments under leases

Commitments under leases

	As at 31-Mar-16 £	As at 31-Mar-15 £
Other leases	–	–
Not later than one year	7,657	7,657

The GCA has a service Memorandum of Terms of Occupancy with the CMA for rent and services. The minimum notice period is 6 months but the GCA intends to stay longer.

11. Contingent liabilities & assets

There are no contingent liabilities or assets to report.

12. Related party transactions

The GCA is a corporation sole sponsored by BIS and funded by a levy on 10 large retailers. BIS is regarded as a related party. During the year, the GCA has had various material transactions with BIS, through the provision of payroll for the Adjudicator, a business loan and the provision of ICT services (from November 2015).

The GCA also has related party transactions with the Competition and Markets Authority. These relate to accommodation, finance and ICT services (until November 2015) as the GCA is co-located with the Competition and Markets Authority.

None of the GCA members or key managerial staff undertook any material transactions with BIS during the year, except for remuneration paid for their services.

All transactions with the CMA and BIS have been completed with market rates.

13. Events after the reporting period

There are no post-balance sheet events to report.

In accordance with the requirements of IAS10 'Events After the Reporting Period', post-Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate Report of the Comptroller and Auditor General. There are no post-Statement of Financial Position events between the balance sheet date and this date.

GLOSSARY

BIS	Department for Business, Innovation and Skills
CC	Competition Commission
CMA	Competition and Markets Authority
CCO	Code Compliance Officer
GCA	Groceries Code Adjudicator
JBP	Joint Business Plan
POD	Proof of Delivery
OFT	Office of Fair Trading
SKU	Stock Keeping Unit
The Act	Groceries Code Adjudicator Act 2013
The Code	Groceries Supply Code of Practice
The Order	The Groceries (Supply Chain Practices) Market Investigation Order 2009
The Financial Penalty Order	The Groceries Code Adjudicator (Permitted Maximum Financial Penalty) Order 2015

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