OFFICE OF FAIR TRADING

Office of Fair Trading Annual Report and Accounts 2012–13

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CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

After 40 years of making markets work well for consumers, 2013-14 is the final year of the Office of Fair Trading (OFT), marking a new phase in the evolution of the regimes we operate. As we look back on the previous year, we are struck by how much has been achieved across a strong and diverse portfolio of work. This year, three words have guided our approach: **delivery**, **people and change**.

Our role is to drive competition and protect consumer interests – issues that go to the very heart of economic growth. **Delivery** of our work has not stopped or slowed because of the changes ahead. We have kept our foot on the pedal, continued to take ground breaking cases and applied robust analysis to some of the most topical and important markets for UK consumers, from defined contribution workplace pensions and private motor insurance to dentistry and payday lending. Our credit work, in particular, has been very important this year, as we have worked hard to protect some of the most vulnerable consumers in our society.

Across our portfolio we have revoked or refused 44 consumer credit licences, secured 22 consumer enforcement outcomes, delivered 14 markets projects,[1] taken 100 mergers decisions and made 16 market or merger references to the Competition Commission. We also fined companies over £60 million for anti-competitive conduct in the British Airways passenger fuel surcharges and Mercedes-Benz commercial vehicles cases, sending out a strong deterrence message.[2] Our work this year will benefit, amongst others, consumers visiting the dentist, moving into a retirement home, buying a mobility aid or taking out a payday loan. Our evaluation estimates that the benefits we delivered in 2012-13 equate to 8.7 times our costs across our consumer and competition work, and eight times our cost for consumer credit.[3]

People have been at the heart of our achievements this year. Staff have continued to deliver in a climate of some uncertainty. Our achievements are a credit to them. We have invested in the skills and expertise of our staff, as they will be at the heart of the success of the new Competition and Markets Authority (CMA) and the new credit responsibilities of the Financial Conduct Authority (FCA). We have also made a number of important senior appointments, promoting from within and bringing in new talent from outside. These opportunities will continue in 2013-14.

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1 www.oft.gov.uk/shared_oft/about_oft/oft953.pdf

2 British Airways was fined £58.5 million for collusion in the passenger fuel surcharges case and fines in excess of £2.8 million were imposed on Mercedes-Benz and five of its commercial vehicles dealers for entering into anti-competitive arrangements.

3 See Chapter 7 and the NAO's recent report 'Office of Fair Trading: regulating consumer credit'.

Change has been a constant theme, in the context of major reorganisations of the consumer protection, competition and credit licensing regimes: a huge amount has already been done to facilitate the successful transfer of our functions and our staff. In the course of our work, we have focused on harnessing opportunities to innovate as we prepare for transition, while maintaining the best of the OFT. Our approach has evolved over time and we have made long-term investments in improving the way we work. For example, we are now seeing early positive results from improving decision making and processes under the Competition Act.

We have also developed how we use data and intelligence, publishing, for the first time, a Strategic Assessment of risks to UK consumers. We also took on a greater role in public healthcare mergers, assessing the competition aspects of mergers involving foundation trusts.

2012-13 has been a busy and successful year for the Office. We are proud to have led our staff through such interesting, as well as challenging, times. Over the next few months, we will focus on laying the foundations for the success of the new regimes and supporting our staff through this period of change.

Philip Collins
Chairman

Clive Maxwell
Chief Executive

EXECUTIVE SUMMARY

The OFT is the UK's consumer and competition authority: our mission is to make markets work well for consumers. Competitive markets create incentives for greater business efficiency and ensure firms are responsive to consumers' demands. We also support economic growth by ensuring that innovation and entry to markets is not stifled by anti-competitive behaviour.

We had three strategic objectives for 2012-13:

- **High impact enforcement** to achieve compliance with competition, credit and consumer law;
- **Influencing**, changing behaviour in markets through advocacy and guidance, and taking action using non-enforcement tools; and
- Building **organisational delivery and capability.**

We prioritised the work we did around five key themes: vulnerable consumers and those challenged by the adverse economic climate; pricing used as a barrier to fair choice; improving trust in online markets; intellectual property and high innovation markets; and public markets.

High impact enforcement has been a priority across our competition, consumer and credit roles.[4]

Our consumer credit work has played an important part in protecting vulnerable consumers during the economic downturn. We have taken high profile action in the payday lending market, as well as following up our commitment to clean up the debt management sector. Across the credit market, we revoked or refused 44 licences and, at the end of the year, we placed 50 payday lenders on notice to improve their practices or risk losing their licences. We also consulted on our new power to suspend a credit licence: an important addition to our toolkit.

Our consumer enforcement work continued at pace, with 22 enforcement outcomes secured in 2012-13. Eight supermarkets signed up to a set of principles to address concerns over special offers and promotions. We continued our action in the gyms sector, securing agreements from three major operators to change their contract terms to make them more transparent and give members better cancellation rights. Our intervention on airline surcharges led to a commitment from 12 airlines to include debit card surcharges in the headline price.

We completed seven Competition Act investigations this year. We received voluntary assurances in two cases, closed two cases, issued one Short-form Opinion and imposed two sanctions: British Airways was fined £58.5 million for collusion in the

[4] Annexes detailing our actions this year are published on our website: www.oft.gov.uk/about-the-oft/annual-plan-and-report/annual-report

passenger fuel surcharges case and fines in excess of £2.8 million were imposed on Mercedes-Benz and five of its commercial vehicles dealers for entering into anti-competitive arrangements. We opened nine new Competition Act cases, including our ongoing investigation into the distribution of road fuels in the Western Isles of Scotland by GB Oils Limited, and two new cartels cases under the Enterprise Act (EA02).

2012-13 was also a busy year for our mergers team. We took 100 merger decisions over the course of the year, the same as last year, both significantly higher than the previous trend. The number of references to the Competition Commission (CC) has also been high – we made 14 this year – partly reflecting a higher proportion of mergers between direct competitors during tough economic times. We also considered, and then referred, our first merger of NHS Foundation Trusts (located in Poole, Bournemouth and Christchurch) under the Health and Social Care Act 2012.

Our markets work has been of particular note: we concluded reviews of the private motor insurance, private healthcare, personal current accounts, road fuel, extended warranties on domestic electrical goods, dentistry and energy efficiency markets. The first two resulted in market investigation references to the CC after we identified reasonable grounds for suspecting that features of the markets appeared to be causing or contributing to the prevention, restriction or distortion of competition. We also launched seven new market studies and reviews including personalised pricing, defined contribution workplace pensions, payment systems and payday lending. And we published our final reports on choice and access in remote communities and price comparison websites.

We have also continued to prioritise our **influencing** work – changing behaviour in markets through advocacy and guidance. This year, as part of our focus on public markets, we secured important change in the dentistry sector, where direct patient access is now being opened up to more services. We continued to advocate the benefits of competition at home and abroad, taking part in the debate on economic growth. And we have produced new guidance for businesses, for example on property sales and continuous payment authorities, as well as launching targeted consumer and business awareness campaigns on a range of issues including energy efficiency and price comparison websites following our markets projects.

We have remained committed to building **organisational delivery and capability**, innovating in the way we deliver our work and support our staff's development. We have invested in enhanced procedures and decision-making in Competition Act cases, including moving to three-person Case Decision Groups, appointed by a new Policy Committee of senior staff and accountable to the Board. We established an 'Enforcement Academy' in May 2012, designed to further improve our investigatory and case handling skills across all our enforcement work, holding 13 skills training sessions and 16 know-how talks. And we have continued to recruit staff with specialist skills as well as to invest in the learning and development of existing staff.

Throughout the year we have worked hard to support the transition to new institutional arrangements: we played an active part in the move to a new consumer protection regime from April 2013, and are placing an ever growing focus on transition to the CMA and FCA.

1 THE BOARD

Philip Collins
Chairman

Clive Maxwell
Chief Executive

Sonya Branch
Executive Director

Vivienne Dews
Executive Director

Alan Giles
Non-Executive Director

Frédéric Jenny
Non-Executive Director

Anthony Lea
Non-Executive Director

Philip Marsden
Non-Executive Director

William Moyes
Non-Executive Director

THE BOARD

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

Chairman

Philip Collins became Chairman of the Office of Fair Trading on 1 October 2005. He is a solicitor who has practised in the UK and EU competition law field for more than 30 years, initially in London and latterly in Brussels.

He was formerly a partner in Lovells where, in 1978, he was the first partner appointed to specialise in competition law. With the subsequent development of the practice, he was made head of the firm's competition and EU law practice.

Subsequently, and until 30 September 2005, he was Senior Counsel at Wilmer Cutler Pickering Hale & Dorr LLP, based in Brussels. Philip was one of the founders of the Competition Law Forum established at the British Institute of International and Comparative Law and a member of its Advisory Board from its foundation in 2002 until 2005. He is also a member of the Editorial Board of the European Competition Journal.

Chief Executive

Clive Maxwell became Chief Executive on 1 July 2012. He joined the Board of the OFT as an Executive Director in September 2010. As Executive Director, he led a review of the OFT's enforcement work in 2012 and set up its Enforcement Academy as a result. Before then, he was Senior Director, Services Sector, at the OFT from October 2009.

Prior to the OFT, Clive worked in a wide range of roles for HM Treasury from 1992-2009. He led work responding to the financial crisis in 2007-09, and worked on financial markets and regulation there from 2002. He worked in Brussels on secondment to the European Commission in 1994-95, dealing with economic and monetary issues, and on secondment in local government in 1999-2000. Clive has represented the UK in numerous international and EU fora, including the European Competition Network and the EU's Financial Services Committee, of which he was Vice-Chairman from 2008-09.

Executive directors

Vivienne Dews became an Executive Director of the OFT in April 2008. Vivienne leads the OFT's markets work and delivery of services to consumers and businesses including credit licensing, anti-money laundering supervision and the OFT's enquiries department. She is responsible for the OFT's in-house services such as human resources, finance and procurement, facilities management and IT. In addition she brings together the OFT's preparations for its functions to transfer to successor organisations.

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

Sonya Branch was appointed as Executive Director in November 2012 and has responsibility for a large part of the OFT's front-line delivery work, overseeing competition and consumer enforcement cases and merger reviews. Sonya was on secondment to DEFRA in 2012, leading the Triennial Review of two of its biggest agencies and the largest such review by government to date. Before this, she was a Senior Director in the OFT's Markets and Projects area and led a number of significant competition enforcement cases and market studies, including the private healthcare, private motor insurance and dentistry market studies. Sonya joined the OFT in 2007 from global law firm, Clifford Chance LLP, where she was one of the Partners leading its competition practice. Sonya is also a Trustee of the national cancer charity, Target Ovarian Cancer.

Non-executive directors

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

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

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

Dr Philip Marsden joined the Board in October 2008 and was reappointed for a further two-year term from April 2012. He is a Canadian and English lawyer who has practised in Toronto, Tokyo and London, and has also worked as an official in the Canadian Competition Bureau. He has a particular interest in competition and consumer policy and is currently the Director and Senior Research Fellow at the British Institute of International and Comparative Law in London, with responsibility for its Competition Law Forum. He is also Non-Executive Director on the Boards of the Channel Islands Competition and Regulatory Authorities, visiting Professor at the College of Europe, Bruges and General Editor of the European Competition Journal.

Dr William Moyes joined the Board in April 2010 and was reappointed for a further year from April 2013. He is currently a Non-Executive Director of the Priory Hospital Group, a lay member of the Legal Services Board and also holds two pro bono appointments, namely Governor of Heythrop College (part of the University of London) and Trustee of the Catholic Trust for England and Wales.

Previously he was Executive Chairman of the Independent Regulator of NHS Foundation Trusts (Monitor) from 2004 to 2010 and Director General of the British Retail Consortium (2000 to 2003). A civil servant from 1974 until 1996, he held a variety of posts in the fast stream and senior civil service. He was a member of the Economic Secretariat in the Cabinet Office between 1980 and 1983, and Director of Strategy and Performance Management within the Management Executive of the NHS in Scotland from 1990 to 1994. He was seconded to the British Linen Bank (a wholly owned subsidiary of the Bank of Scotland) in 1994, establishing its PFI advisory and equity investment team, which focused on large deals, mainly in health. He was also Director of the British Linen Bank (1996) and Head of the Infrastructure Investments Department at the Bank of Scotland (1998 to 2000).

2 ABOUT THE OFT

The OFT is the UK's consumer and competition authority. Our mission is to make markets work well for consumers. Our work enables competitive markets to deliver the incentives for greater business efficiency, and to ensure that firms are responsive to consumer demands.

Our goal is competitive, efficient, innovative markets where standards of customer care are high, consumers are empowered and confident about making choices and where businesses comply with consumer and competition laws but are not overburdened by regulation.

Our approach

Our dual competition and consumer remit allows us to look at market problems in the round, and the wide range of remedies at our disposal allows us to take flexible and proportionate action.

The majority of our work consists of:

- Enforcing competition and consumer law
- Analysing markets
- Merger control
- Licensing and supervisory work in the consumer credit and estate agency markets, including anti-money laundering supervision
- Influencing the behaviour of businesses, government and consumers through advocacy, information, guidance and partnership.

Across all our work we are committed to acting in a targeted and proportionate manner. We consider carefully what intervention tools and remedies (including voluntary resolution) might best obtain proportionate and effective outcomes. We also recognise the importance of being transparent.

Delivering our objectives also depends on forming close partnerships and working closely with our partners at local, national and international levels. The OFT is part of a wider framework of organisations whose role it is to protect and empower consumers and to promote competition across the economy.

We work with the CC, economic regulators, including through the Concurrency Working Party, and the FCA, to share experience and coordinate our activity in areas of mutual interest. We also work with the European Commission and other international consumer and competition agencies, as well as local authority Trading Standards Services (TSS), to ensure consumer protection and activity to promote competition are effectively joined up across markets.

How we do our work

Prioritisation

Where our remit gives us discretion to choose whether or not to act, we focus our interventions on areas which pose the greatest threat to competitive, open and well-functioning markets. Our

Prioritisation Principles[5] describe the factors we consider and balance when we make decisions on our priorities: impact, strategic significance, risks and resources.

Minimising burdens on business

In line with the Government's Better Regulation agenda, our mission of making markets work well for consumers includes ensuring that our interventions do not impose unnecessary costs on business. Burdens on business will typically be passed on to consumers in the form of higher prices, lower quality or reduced choice and innovation, which can have a dampening effect on economic growth. So where we perform direct regulatory functions – such as credit licensing – we adopt a risk-based approach, ensuring that we focus our resources on those areas where harm is most significant, therefore keeping costs and burdens to legitimate businesses as low as possible.

Through increased transparency, improved engagement with organisations potentially affected by our work and independent evaluation of our activities, we aim to ensure that we are fully aware of the impact of our work on business.

Transparency

We produce and maintain a range of guidance which aims to improve the transparency of our procedures and help businesses and their advisors better understand and comply with the law.

Our 2010 transparency statement[6] sets out our commitment to those involved and interested in our work, explains how we will engage with them and what information we will provide through the life of a case or a project. This includes consistently providing parties with information at the start of enforcement action and regularly updating parties on case status and timescales.

We have also improved the information that we routinely make available about our current casework and projects. This can be found via a central page on our website.[7]

Evaluation

We are committed to gaining a better understanding of the impact of our work on consumers and the economy.

The impact of our work is assessed through indicators agreed with HM Treasury as part of our 2011-15 Business Plan.[8] This includes a commitment to the publication of at least one independently-audited in-depth ex-post evaluation of an intervention each year. More detail on our input indicators and evaluation work can be found in Chapter 7.

Accountability

In addition to regularly publishing impact indicators and other

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5 www.oft.gov.uk/shared_oft/about_oft/oft953.pdf

6 www.oft.gov.uk/about-the-oft/accessing-information/transparency/

7 www.oft.gov.uk/OFTwork/oft-current-cases/

8 www.oft.gov.uk/about-the-oft/oft-structure/accountability/business-plan

performance data, the OFT is accountable to the public through Parliamentary scrutiny in Westminster and the devolved administrations, for example through inquiries by select committees.

Each year we produce an Annual Plan,[9] setting out our objectives for the year, which is laid before Parliament. We are accountable to Parliament for the delivery of these objectives via the presentation of our Annual Report pursuant to section 4 of the Enterprise Act (EA02). Under section 5 of the Government Resources and Accounts Act 2000, we are required to prepare resource accounts for each financial year, which are audited by the National Audit Office. We are also accountable to government and Parliament for our use of public money via our performance framework with HM Treasury.

Our decisions under competition law, including those made under the Competition Act 1998 (CA98) and decisions on references of mergers or markets to the CC, are subject to appeal to the specialist Competition Appeal Tribunal (CAT), an independent body established under EA02. Our licensing decisions under the Consumer Credit Act 1974 are also subject to appeal heard by the First-tier Tribunal. Where we enforce consumer protection law through the courts, our actions can be appealed there. In addition, the public have the right to seek judicial review of administrative action and to complain to the Parliamentary and Health Service Ombudsman.

Objectives and themes for 2012-13

Our Annual Plan for 2012-13 set out three strategic objectives for the year:

- **High impact enforcement** to achieve compliance with competition, credit and consumer law;
- **Influencing**, changing behaviour in markets through advocacy and guidance, and taking action using non-enforcement tools; and,
- Building **organisational delivery and capability**.

It also identified thematic priorities for our work in light of economic and market trends, and evidence about the issues most affecting consumers and business.

The themes for 2012-13 were:

- Vulnerable consumers and consumers challenged by the adverse economic climate
- Pricing used as a barrier to fair choice
- Improving trust in online markets
- Intellectual property and high innovation markets
- Public markets

The following four chapters of this report set out the work we have undertaken in 2012-13 in line with our objectives and themes for the year.

[9] www.oft.gov.uk/about-the-oft/annual-plan-and-report

3 ENFORCEMENT

High impact enforcement is a core part of our approach to making markets work well for consumers.

We have continued to prioritise cases that have strategic significance, a deterrence effect and precedent-setting value to ensure that our enforcement work is powerful, targeted and effective.

We have taken enforcement cases that make a real difference for consumers and the economy as a whole, such as our airline surcharges case and our action in the payday lending market.

Over the past year, there has been a significant evolution in the way we approach our enforcement work. Throughout the organisation, we have increased our investigatory capabilities, boosted our senior legal resources, ensured our policies and procedures are fit for purpose, and developed our intelligence function around criminal enforcement in particular. We have worked hard to ensure that we have a balanced portfolio of cases and that we are delivering them faster, while at the same time reinforcing the quality of our work.

At the end of this year, we had 15 open CA98 cases, 28 live consumer enforcement cases (including estate agent disqualifications), four live Enterprise Act criminal cartels cases, 33 live intelligence-led Consumer Credit Act investigations and eight open anti-money laundering cases. We are working hard to ensure that we hand over a strong and balanced portfolio of enforcement cases to the CMA and FCA, liaising closely with the leadership of both bodies to ensure that this is a smooth transition.[10]

Competition Act enforcement

We concluded seven CA98 cases this year, imposing sanctions in two important cases.

British Airways (BA) was fined £58.5 million in the passenger fuel surcharges case for collusion over the pricing of passenger fuel surcharges for long-haul passenger flights between August 2004 and January 2006. Under our leniency policy, Virgin Atlantic was not fined. Although the fine was lower than originally contemplated, it reflected developments in the case law and extensive cooperation by BA. Fines in excess of £2.8 million were also imposed in the Mercedes-Benz commercial vehicles case.

Voluntary assurances were received in two CA98 cases. We closed the first of these cases in May 2012, after Clear Channel and JCDecaux, two major outdoor advertising companies, agreed to make changes

[10] Detailed annexes on our enforcement work are published on our website: www.oft.gov.uk/about-the-oft/annual-plan-and-report/annual-report

to the way they enforce contracts with Local Authorities for advertising on bus shelters and information panels. The second was a swift intervention by the OFT to end an arrangement that appeared to recommend prices for members of the UK Asbestos Training Association (UKATA) to provide training services.

We closed one case due to finding no grounds for action, one on grounds of administrative priority and issued one Short-form opinion.

During the year, we opened nine new CA98 cases and two EA02 cases. Our CA98 cases include investigations into: the distribution of road fuels in

Case study one: Distribution of Mercedes Benz commercial vehicles

In March 2013, we concluded our commercial vehicles case, imposing fines of over £2.8m in relation to five separate breaches of the law.

The settlement of this case followed a Statement of Objections to Mercedes-Benz and five dealers of its commercial vehicles issued in June 2012. The involvement of one of the companies arose largely from the fact that an employee had attended, and was involved in organising, a single meeting at which an anti-competitive agreement was reached: this can be all it takes to breach the law.

The dealers, relatively small companies, are based in the North of England and parts of Wales and Scotland: this case demonstrated our commitment to take action against collusion regardless of the size of the firms or the geographic scope of the case. The case was generated by intelligence rather than by a leniency application, reflecting our increasingly strong investigative capability.

Case study two: Short-form Opinion on rural broadband

In August, we issued a Short-form Opinion to the National Farmers' Union (NFU) and the Country Land and Business Association (CLA) clarifying how competition law applies to the recommendation of a rate to be charged by their members for allowing broadband cables to cross their land. These associations are now able to use this to help them conduct their own self-assessment of compliance with competition law.

This was the second Short-form Opinion published since we introduced the process in April 2010. Short-form Opinions aim to provide guidance, within a prompt timetable, to businesses seeking clarity on how competition law applies to prospective collaboration agreements where these raise novel or unresolved competition law issues.

the Western Isles of Scotland; suspected anti-competitive arrangements relating to online retail; suspected anti-competitive arrangements relating to certain leisure goods; and certain suspected online restrictions in the mobility aids sector.

In November 2012 we carried out searches in connection with the first of the EA02 cartel cases, which saw 70 investigators deployed across five sites throughout the UK. Working with our partners in the Crown Office in Scotland, the case also involved the first criminal cartel warrants to be obtained and executed in Scotland. Four individuals were arrested, and the operation involved coordination with six police forces. In March 2013, we carried out further searches at a number of locations across the UK as part of a second criminal EA02 investigation into suspected cartel activity in the supply of products to the construction industry. Seven individuals were also arrested.

During the past year the OFT has continued to defend its decisions under the Competition Act in a number of appeal cases. Overall, our record is strong; during the course of the Competition Act regime, only seven per cent of parties in respect of which the OFT has made decisions have overturned those decisions on liability at appeal.

At the end of December 2012, the Competition Appeals Tribunal (CAT) issued its judgment on liability in the appeal of the OFT's 2011 Dairy Retail Price Initiatives decision. The CAT upheld the OFT's findings that Tesco infringed competition law in relation to certain anti-competitive exchanges of its pricing intentions on cheese products in 2002. Tesco was found to have been involved in three anti-competitive A to B to C exchanges of information.

We welcomed the CAT's confirmation that a concerted practice consisting of indirect contact between competitors

Case study three: Online hotels Statement of Objections
Annual Plan theme: improving trust in online markets (online markets)

Our online hotel booking case progressed significantly this year. We issued a Statement of Objections in July 2012 alleging that Booking.com B.V., Expedia Inc (Expedia) and InterContinental Hotels Group plc (IHG) infringed competition law. The aim of our investigation is to ensure that people can benefit fully from being able to shop around online and get a better deal from discounters that are prepared to share their commission with customers.

Our Statement of Objections alleged that Booking.com and Expedia each entered into separate arrangements with IHG which restricted the online travel agent's ability to discount the price of room only hotel accommodation. All parties have a full opportunity to respond before we decide whether competition law has in fact been infringed.

via their common supplier is no different in substance from two competing retailers sitting across the table and telling each other what their prices will be next week. This judgment sent a clear signal to all businesses that this conduct infringes competition law.

The CAT also found that, on the balance of probabilities, Tesco did not infringe the law in relation to a number of other alleged exchanges of future pricing information. All other parties to the OFT's 2011 Dairy Retail Price Initiatives decision admitted liability for the infringements and paid penalties totalling over £39 million. The outstanding issues in the appeal were brought to an end in January 2013, and Tesco has paid a penalty of £6.5 million.

At the end of March 2013, the CAT published its ruling on the applications brought by Gallaher and Somerfield for an extension of time to appeal the Tobacco decision (Ruling). The Tribunal allowed both applications, and Gallaher and Somerfield filed late appeals of the Tobacco decision. In June 2013, the OFT applied for permission to appeal the Ruling to the Court of Appeal. The Tribunal stayed Gallaher and Somerfield's appeals of the Tobacco decision pending the OFT's application to the Court of Appeal.

Protecting consumers from unfair commercial practices and unfair contract terms

Over the course of the year we secured 22 enforcement outcomes and nine Estate Agent prohibition orders. Our activity over the year focused on areas that particularly matter to consumers in a difficult economic climate. We prioritised work on unfair contract terms that restrict consumers' ability to terminate a contract if their circumstances change, such as our case in the gyms sectors. We have also maintained a focus on transparent advertising of prices, investigating both the supermarket and airline sectors.

We concluded one criminal consumer case this year and substantially progressed another, which is subject to reporting restrictions. Our completed case, on mileage correction, resulted in a Swindon based trader being jailed for nine months. The case, concluded in November 2012, was the first time the provider of 'mileage correction services', rather than the seller of clocked vehicles, had been convicted under consumer law. We worked with TSS to ensure that others offering this service were made aware of the judgment to boost compliance with the law. We also announced criminal charges against three individuals in connection with an investigation into suspected fraud in property sales.

Completed civil law cases include our investigation into an unauthorised sale of tickets to the London Olympics, which resulted in final orders against Euroteam AS, Uncus AS, Ticket and Travel AS and the controlling director of these companies, Andreas Gyrre, following interim undertakings to the High Court. We also secured court orders against Optimum Care Mobility Limited and certain of its current and former Directors. The Derbyshire-based business sold mobility aids such as stairlifts, scooters and specialist chairs, across the country. This is the latest in a series of cases in the mobility sector taken by both the OFT and TSS across the UK, and reflects our commitment to following

Case study one: Supermarkets

Annual Plan theme: pricing used as a barrier to fair choice (pricing)

Towards the end of 2012, eight supermarkets agreed to a set of OFT principles to address concerns over special offers and promotions for food and drink. Aldi, Co-Op, Lidl, Marks and Spencer, Morrisons, Sainsbury's, Tesco and Waitrose all agreed to adopt the principles into their own policies, following constructive engagement with the OFT.

The principles clarify our view on how promotional claims should be used so that consumers can rely on them being fair and meaningful about the value of the product or the existence of a discount. They also identify activities that would be of concern to enforcers. We developed the principles to help establish a more consistent approach across the sector.

up the findings of our earlier market study utilising a range of enforcement tools.

We also concluded our formal industry-wide investigation into retirement home exit fees, after securing voluntary undertakings from Fairhold Homes Limited (and associated companies), Hart Retirement Developments (Southern) Limited and Hart Retirement Developments (Thamesnorth) Limited and Pegasus Retirement Homes plc. We published a findings report that set out a number of general principles we expect all landlords to abide by when enforcing transfer fee terms in existing leases and recommended that legislative reform be considered to address the difficulties leaseholders face in challenging the reasonableness of such fees.

Case study two: Airline surcharges
Annual Plan theme: online markets, pricing

Headline prices should be the price people can pay by debit card, because debit cards are the online equivalent of cash. Following OFT enforcement action, in July 2012, 12 airlines agreed to include debit card surcharges in the headline price rather than surprise consumers at the end of their booking process. Aer Lingus, BMI Baby, Eastern Airways, easyJet, Flybe, German Wings, Jet2, Lufthansa, Ryanair, Thomas Cook, Thomson (TUI) and Wizz Air all agreed to change their practices.

Any surcharges for credit cards should also be transparent and not sprung on shoppers towards the end of the booking process. As part of the enforcement action, the airlines agreed to make surcharges for credit cards more transparent so that these charges will be clearer and easier to find during the booking process.

Our recommendations also contributed to the Government's decision to bring forward legislation to ban excessive debit and credit card surcharges across the economy. This came into force on 6th April 2013.

Case study three: Gyms
Annual Plan themes: pricing, vulnerable consumers

This year we secured agreements from Bannatyne Fitness Limited, David Lloyd Leisure Limited and Fitness First Clubs Limited to change their contract terms to make them more transparent and give their members better cancellation rights.

We were concerned that consumers could be locked into their contracts even if their circumstances changed, for example losing their job or for health reasons, forcing them to continue to pay. This matters because millions of people are members of gyms and a membership contract can easily be a financial commitment of over £500 per annum. We are continuing our investigation into some other companies in the sector.

Protecting consumers in the credit market

Our consumer credit work had a high profile year. As access to credit remained constrained, alternative credit provision, and the potential impact on consumers of borrowing outside the traditional mainstream, has risen up the agenda. We have kept up the pace of enforcement to ensure that we continue to protect some of the most vulnerable consumers in our society, issuing 90 formal notices during the year, including 19 'minded to revoke' notices.

One of our top priorities has been payday lending. We have complemented formal enforcement action with pre-enforcement warnings to the whole industry, with the aim of delivering rapid change right across the sector. Alongside this work to drive a step change in compliance, we also completed enforcement cases against two payday lenders – Wonga (where our decision is subject to appeal) and MCO Capital – and pursued a further three formal investigations. The MCO case covered both consumer credit and anti-money laundering breaches and was a joint action by our Credit and Anti-Money Laundering (AML) teams. We also published a consultation on a proposed decision to refer the market to the CC for an in-depth investigation.

Although payday lending grabs the headlines, it is only part of our overall portfolio. During the year we have also taken licensing action in areas such as debt management, debt collection, lead generation and bridging loans. As well as taking enforcement cases, we also scrutinise applications from new

Case study one: Payday loans
Annual Plan themes: vulnerable consumers, high innovation markets, online markets, pricing

Early in 2012, we launched a review into the extent to which the £2 billion payday lending sector was complying with relevant legislation and meeting the standards set out in OFT guidance, including on Irresponsible Lending.

Our review found evidence of problems throughout the lifecycle of payday loans, from advertising to debt collection, and across the sector, including by leading lenders that are members of established trade associations.

We announced our final conclusions and next steps in March 2013, including that we were requiring 50 leading payday lenders, accounting for 90 per cent of the payday market, to demonstrate within 12 weeks of receiving a detailed list of our concerns, that they have changed their business practices or risk losing their licences. At the same time, we announced that, subject to consultation, we proposed to refer the payday lending market to the Competition Commission, having found evidence of deep-rooted problems with competition in the market.

entrants for a licence to engage in consumer credit activities. During the course of the year we issued just over 50 formal notices at the 'gateway stage', which includes applications for a licence, renewal or variation, refusing 28 firms and individuals licence to operate. Of course, the majority of applications we receive do not give rise to such action: we issued 7,224 new licences and 6,932 renewals and 94 per cent of low risk applications are now processed within 25 working days.

We also consulted on how to use our new power to suspend consumer credit licences, which will enable us to suspend licences in a limited number of cases where there is an urgent need to protect consumers. This power significantly strengthens our enforcement toolkit and so our ability to protect consumers, allowing us quickly to put a stop to the licensable activities of businesses that otherwise would be able to operate until the end of an often lengthy appeals process.
During the year, decisions were reached in 18 appeals against our enforcement decisions. The First-Tier Tribunal dismissed seven of these, struck out another, and six were withdrawn. Two were dealt with by way of consent orders.

On 5 April 2012, it was confirmed that the majority of companies in the Yes Loans Group had decided not to appeal our licensing decisions. Yes Loans was one of the UK's largest credit brokers so this sent a strong message to the sector. We found it had been: deducting brokerage fees without making it clear that a fee was payable; misleading consumers into believing it was a loan provider; and treating customers poorly by not providing refunds in a timely way.

Case study two: Debt management
Annual Plan theme: vulnerable consumers

One of our key priorities in 2011-12 was continuing to clean up the debt management sector and we saw this commitment through in 2012-13.

In November 2012, we decided to revoke the credit licence of First Step Finance Limited, a large debt resolution company based in Stockport. Among other things, the company: was not sufficiently transparent when describing its services, including in sales calls; failed to comply with OFT Debt Management Guidance, the Consumer Credit Act and other consumer legislation; and demonstrated a lack of integrity.

In January we refused to renew the licences of Welcome Solutions Ltd and Debt Connect (UK) Ltd for a range of breaches including providing misleading information to consumers and lacking the necessary skills, knowledge and experience to run a compliant business. Overall, since on our 2010 review, our action has resulted in 100 businesses exiting (or being refused entry to) the debt management market.

Anti-Money Laundering supervision

The Money Laundering Regulations aim to detect, deter and disrupt money laundering: to comply with the Regulations, certain types of business must register with us.

We completed four anti-money laundering cases this year, imposing penalties of £567,215, including one very large fine (see below).

Companies were fined for failure to register and failure to comply with requirements under the Regulations, such as properly verifying identities or ensuring staff are aware of their responsibilities. We also made the list of registered businesses searchable on the OFT website, allowing the public, industry, and regulators including TSS to check and notify the OFT if businesses are not registered.

Case study: MCO Capital
Annual Plan theme: vulnerable consumers, online markets

In August 2012, we imposed a £544,505 penalty on payday lender MCO Capital Limited (MCO) for breaching the Money Laundering Regulations 2007, including its failure to adequately verify the identities of loan applicants. We also revoked its consumer credit licence.

MCO's failure to conduct identity checks left it vulnerable to targeting by fraudsters who used the personal details of over 7000 individuals to successfully apply for loans amounting to millions of pounds. We found MCO had also engaged in unfair business practices by writing to people who they were aware may not have taken out loans, asking unequivocally for repayment, and failing to stop when we asked them to do so. MCO has appealed the fine.

4 MERGERS AND MARKETS

Alongside enforcement work, we can investigate markets to consider whether they are working well for consumers, and review mergers which could result in a substantial lessening in competition.

2012-13 was another busy year for mergers and markets work, as we took 100 mergers decisions and delivered 14 markets projects across a broad range of sectors, ranging from private healthcare through to school uniforms.

Mergers

Our throughput of merger reviews remained high. At the end of March 2013, we had taken 100 decisions, which is the same as the figure for last year, with both years being significantly higher than the previous recent trend. We made 14 references to the Competition Commission, the highest number for six years. This equates to 14 per cent – compared with a typical rate of around 10 per cent for the period from 2004. We accepted undertakings in lieu of a reference in 10 merger cases.

These relatively high figures reflect the difficult economic backdrop, as mergers of close rivals struggling to stay afloat independently are commonplace and such mergers, between close competitors, a more likely to raise competition problems. Other factors include the work of our Mergers Intelligence Unit catching more cases, our new role in hospital mergers and some one-off cases.

We have shown that we are willing to consider issues in detail at phase one and, where appropriate, to clear or to accept parties' remedy proposals in economically significant cases, rather than to refer issues to the CC.

Case study one: LSE/Clearnet clearance
Annual Plan theme: intellectual property and high innovation markets

In December 2012, we cleared the expected acquisition by the London Stock Exchange Group plc (LSE) of majority control of LCH.Clearnet Group Limited (Clearnet). Given the importance of the activities undertaken by the parties to the UK economy, we conducted an extensive and thorough review of the transaction. We concluded that the deal did not raise competition concerns.

We assessed whether, post-transaction, the parties would foreclose or otherwise impact their rivals, for example, through raising trading or clearing fees, refusing access to certain services or degrading the quality of these services, and in doing so raise the cost of trading and clearing for customers. We looked separately at the trading and clearing of equities securities, fixed income securities and exchange traded derivatives.

Examples include our LSE/Clearnet clearance (see case study) and undertakings in lieu on the Nakano/Premier Foods and Jewson/Build Center mergers. But we would be failing in our duties if we were to clear mergers where the evidence presented to us indicated risks of higher prices or reduced choice for consumers.

Case study two: Nakano/Premier Foods

In February 2013, we accepted undertakings from Nakano to remedy competition concerns arising from the company's completed acquisition of the vinegar business of Premier Foods. As a result, we did not refer the merger to the Competition Commission.

Nakano and Premier Foods are the only two manufacturers of unbranded malt and spirit vinegar in the UK and the largest suppliers of these products to food processor companies, food service customers and supermarkets. Under the undertakings, Nakano offered to sell its Burntwood vinegar plant to Baxters. Before accepting the undertakings, we carefully assessed and consulted on the proposal, including on the suitability of Baxters as the buyer. A monitoring trustee was in place for the duration of the upfront buyer period.

Case study three: Dorset hospital merger
Annual Plan theme: public markets

In January 2013, we referred the proposed merger of two NHS foundation trusts located in Poole, Bournemouth and Christchurch to the Competition Commission for an in-depth investigation.

This was the first merger between two NHS foundation trusts examined by the OFT since the enactment of the Health and Social Care Act 2012, which confirmed our role in assessing the competition aspects of such mergers.

The merger would combine the two NHS district general hospitals in Bournemouth and Poole, which our investigation found compete across a range of clinical specialties. The evidence suggested that the merger would result in few realistic alternative providers for local patients and NHS commissioning groups.

As a result, we could not dismiss concerns that, in several medical specialties, the merger might reduce the hospitals' incentives to continue to improve the quality of those services above minimum required standards and would result in less choice for commissioners wishing to reorganise services.

This year, we have also, for the first time, introduced the use of trustees to oversee 'hold separate' undertakings (such as in the Global/GMG and Vue/Apollo cases), which prepares the way for the CMA's stronger powers in these respects from 2014. We also considered mergers in public services markets – in particular in the health sector – and continued to make investments in our Mergers Intelligence Unit.

We conducted reviews of historic remedies imposed on merging parties by the CC, including one on 2007 undertakings related to Yellow Pages – in this case we recommended that the CC consider releasing the company given substantial changes to the market, especially the growth of internet searches.

Markets

Evaluation shows that our markets work can generate some of the most positive, high impact improvements for consumers and the economy. For example, since our earlier work on personal current accounts, we estimate that consumers have saved between £388 and £928 million a year from the fall in unauthorised overdraft charges between 2007 and 2011.

We analyse markets to see whether they are working well for consumers, to safeguard consumers and to promote competition, including looking at removing regulatory and other barriers to entry and expansion.

Our work this year has been broad-ranging and has touched on markets that are at the heart of consumer and economic well-being in the UK. This has included reporting on important markets in the public eye such as private motor insurance, personal current accounts, payday lending, road fuel, dentistry, lettings and energy efficiency: we completed 14 markets projects this year. Of these, private motor insurance and private healthcare resulted in references to the CC for a more in-depth market investigation.

We referred the private motor insurance market after our study gave us reasonable grounds for suspecting that the insurers of drivers responsible for an accident ('at-fault' drivers) appeared to have little control over the way repairs and replacement vehicles are provided to the 'not-at-fault' driver. This may enable the insurers of not-at-fault drivers, and others such as insurance brokers, credit hire organisations and repairers, to engage in practices which appear to result in the cost of replacement vehicles and vehicle repairs provided to not-at-fault drivers being higher than they might otherwise be. Our concerns about the private healthcare market are set out in the case study at the end of this section.

We also published advice for consumers on how they can make the best use of price comparison websites (PCWs). This followed an OFT review which found that while PCWs can help people get better deals, use of these sites can be held back by a lack of understanding, trust and confidence among some groups of consumers.

Our review of the energy efficiency sector found instances of poor practice such as the use of high pressure sales techniques, unclear information about paperwork and cancellation rights, and poor quality installations. We are working with fellow enforcers, regulators, government, industry and consumer groups to promote good business practice. We have advised businesses of their obligations under consumer protection law, as well as producing guidance for consumers buying energy efficiency products.

We commenced seven new markets projects across a variety of sectors of the economy, including on defined contribution workplace pensions and personalised pricing online (these were ongoing on 31st March 2013).

Case study one: Remote communities
Annual Plan theme: vulnerable consumers, online markets, pricing

In June 2012, we published the findings of our consultation into markets in remote communities across the UK. Overall, we found that higher prices and limited choice in these remote areas can result from low sales volumes and weak competition, with some businesses having local monopolies.

We have taken a range of steps since, including analysing trends in fuel prices in the Scottish islands and launching a formal Competition Act investigation into the distribution of road fuels in the Western Isles of Scotland by GB Oils Limited. We have also worked with Highland Trading Standards to improve consumer protection in relation to delivery services and extended our guidance for retailers who supply remote communities on how to comply with the Distance Selling Regulations.

Our report acknowledged that not all the issues identified can be addressed by the OFT. We highlighted local initiatives already underway that address some of the challenges and also identified ways that business, government (both local and national) and enforcement partners can improve the ways markets work for those in remote areas.

Case study two: Road fuels

Annual Plan theme: pricing as a barrier to fair choice, vulnerable consumers

In September 2012, we launched a call for information on the £47bn UK road fuel sector to determine whether there were competition problems. This was a major piece of work, which incorporated ground-breaking econometric analysis carried out to a demanding timescale. We studied a range of concerns including: whether there is a lack of competition in local areas that leads to higher prices; whether independent dealers are able to compete fairly; whether pump prices rise more quickly than they fall ('rocket and feather pricing'); and whether speculation or manipulation in crude oil or futures markets, or inaccurate oil or wholesale road fuel price reporting, could lead to higher prices.

The evidence suggested that, at national level, competition is working well. This is supported by evidence that, pre-tax, road fuel prices in the UK are amongst the lowest in Europe: rises in pump prices for petrol and diesel over the last 10 years have been caused largely by higher crude oil prices and increases in tax and duty. We did, however, identify that an absence of pricing information on motorways may be limiting competition, and recommended government action to address this: a consultation is now underway. We are also currently investigating road fuel distribution in the Western Isles and Shetland Islands, demonstrating our commitment to action where we uncover credible evidence that justifies an investigation. Finally, we noted that whilst the potential manipulation of relevant futures markets or inaccurate price reporting would raise significant concerns which would be of interest to the OFT or other agencies, we did not receive credible evidence that we could pursue.

Case study three: Private healthcare

Annual Plan theme: pricing

At the start of April 2012, we referred the market for privately funded healthcare services in the UK to the Competition Commission for further investigation.

Our concern was that private patients and their GPs faced difficulties selecting private healthcare providers on the basis of quality or value for money, and that this could ultimately result in patients paying higher prices, or receiving lower quality care. We identified a lack of easily comparable information available to patients and their GPs on the quality and costs of private healthcare, pockets of high concentration in some local areas, and features of the market that combine to create significant barriers to entry for new competitors.

Before making a final decision to refer the market, we undertook a comprehensive public consultation on our findings.

5 INFLUENCING

Across our portfolio, we are committed to changing behaviour, encouraging compliance with the law and influencing policy outcomes through advocacy, guidance, and information provision.

Such approaches can be an effective alternative to, or complement to, making referrals, taking enforcement action and making recommendations to other bodies. We can also improve markets by raising awareness of competition law (domestically and internationally) and communicating with consumers.

Public markets and advocacy to government

This year we have continued to work with a range of government departments and public bodies to ensure competition and consumer concerns are given due weight when policy is implemented or regulatory regimes designed.

Government decisions can have a significant influence on the way markets develop. As the Government increasingly introduces choice in the delivery of public services, we are working hard to ensure the benefits and risks of competition are fully understood by policy makers – and that the markets that are being created are working effectively.

Work in this area over the last 12 months has included publication of a working paper which explores how policy makers, regulators and contracting authorities can facilitate the 'orderly exit' of failing providers, which matters because a credible threat of exit is an important driver of competition.[11]

We held a successful roundtable on 'competitive neutrality' (the principle that there should be a 'level playing field' between public, private and third sector providers of goods and services), as well as having specific engagement with the health and education sectors. We also advised eight NHS hospital trusts on competition law and secured assurances that they would no longer exchange commercially sensitive information about their Private Patient Unit (PPU) prices. Our recommendations on dentistry led to changes that enable patients to get direct access to dental care professionals, such as dental hygienists, without a referral from a dentist.

Our advocacy role also includes making formal recommendations to government. The Chancellor's 2013 Budget included a renewed government commitment to accept such OFT and CC recommendations and confirmed that it will extend this to the CMA in due course. There is now a presumption that all

[11] www.oft.gov.uk/OFTwork/public-markets/choice-and-competition/orderly-exit

recommendations will be accepted unless there are strong policy reasons not to do so. As part of this, the Government agreed to take up our recommendation to work with motorway service areas and other relevant bodies to improve the availability of fuel price information to motorway users. A full list of recommendations made to the Government by the OFT this year is detailed in the table below.

Project	**Recommendation**
Dentistry	That the Department of Health redesigns the NHS dental contract to facilitate easier entry into the market by new dental practices and to allow successful practices to expand. We also made a number of recommendations to NHS commissioning bodies, General Dental Council, British Dental Association and Care Quality Commission.
Road Fuels	That the Department for Transport considers the costs and benefits of introducing new road signs that would display service station petrol and diesel prices for motorway drivers.
Lettings	That the Government works with industry, enforcers and other stakeholders to agree a strategy to raise standards in the sector; as part of this, Government to consider a number of specific issues: • whether agents should be required to sign up to a code of practice or join a redress schemes • whether the level of protection under consumer law is right in the context of the lettings markets • the benefits of introducing any elements of other regulatory regimes into the lettings framework in England • whether more could be done for landlords and tenants to understand and compare what existing codes offer • whether 'portable' reference checks could feasibly be introduced.
Retirement Homes	That Government considers legislative reform as a means to address the difficulties tenants have in challenging the reasonableness of transfer fees, such as for example by expanding the remit of the Leasehold Valuation Tribunal to allow the tribunal to rule on the reasonableness of such fees or by prohibiting the levying of such fees altogether.
Home Insulation	• Government should ensure that the approach to monitoring the quality of installation under ECO and the Green Deal is further developed, with clearer incentives to reduce the incidence of problems. • Government should make sure that one body has clear responsibility for monitoring installations in the longer term. • Government should apply the lessons to be learnt from recent fluctuations in demand for installations under CERT and CESP, and apply these to the new ECO schemes. • The OFT has made a number of specific suggestions regarding the operation of the ECO schemes.
School Uniforms	That UK state schools consider whether their current arrangements regarding the supply of school uniforms are in the best interests of parents, and change them if they are not.

International

We have continued to play a part in international policy development and have actively participated in the work of the International Competition Network, European Competition Network and the OECD We have continued to work directly with our counterparts around the world and we have deepened our relationships with the Chinese authorities in particular. We also participated in a Department for International Development scheme to deploy staff to developing countries to advise on issues relating to the international investment climate.

As we continue to look for ways to boost growth in the context of the global economic crisis, it is important to continue to emphasise the importance of competition, and the benefits of continued international cooperation, as part of the response to that crisis. We have sought to retain an international leadership role on competition and consumer policy, which we expect to pass to the CMA in 2014.

We have also maintained our close working relationships with others representing consumer interests, through bilateral channels as well as through the (European) Consumer Protection Cooperation Network and the International Consumer Protection Enforcement Network. This included collaborative work on specific enforcement cases, joint projects on issues of common interest and sharing best practice and intelligence.

Guidance

We produce a range of guidance on the law and our procedures, to help individuals and traders to understand their responsibilities and to provide clarity about how we will deal with parties to our investigations and reviews.

This year we produced a large number of guidance documents and resources, such as our guidance to help estate agents and others involved in property sales understand their responsibilities under consumer and business protection regulations, which was published in September 2012.

Our guidance for travel companies, produced jointly with the Civil Aviation Authority, is designed to make sure the travel industry is fully aware of its responsibilities under existing consumer legislation. The guidance makes clear that firms must provide consumers with the information they need, when they need it and in a transparent way they can clearly understand. It also sets out how the enforcement process works if regulations are breached.

We also produced a set of principles for businesses using Continuous Payment Authority (CPA) amid concerns that customers are not always made aware of what they are signing up to and may be misled about their rights to cancel. The principles make clear to all businesses what they need to do to fully meet their legal responsibilities when using CPAs. We provided separate specific guidance on the use of CPAs to collect regulated debts, a widespread practice in the payday lending sector.

Compliance and education

During 2012-13 we took a more strategic approach to driving compliance amongst businesses and empowering consumers. This involved greater alignment between business and consumer education, using the insight that businesses are motivated to comply by consumers who know and assert their rights.

This joined-up approach was used to improve business' behaviour in the distance selling, dentistry, price comparison website, school uniforms, energy efficiency and payday loan markets, by combining targeted compliance messages with wider awareness raising activity.

Businesses were reached via a range of channels including national media, trade press, letters to businesses and partnerships with trade associations. TSS were a valued partner in our work.

Consumer messages were communicated through national media and by working in partnership with a range of organisations including Citizens Advice, The Money Advice Service, Which?, Age UK, the NHS, Money Saving Expert and a range of private sector partners relevant to each market.

Compliance and education activity made use of our longer-standing campaigns such as Know Your Consumer Rights, Doorstep Selling, Skilled to go and the Sale of Goods and Distance Selling hubs. All activities reflected current government best practice and were free or low cost, digital and measurable. For example, our integrated compliance activity for the Distance Selling Regulations increased the number of businesses registering on our educational hub by 60 per cent during the activity week compared to the weekly average. Sixty letters targeting non-compliant businesses achieved 600 hits to our compliance 'top tips' and this activity was the BBC's leading story.

On competition law, we continued to promote our compliance materials and worked closely with the Compliance Working Group, comprising representatives from various business and legal associations. We also ran online activity with 'The Director' magazine to promote awareness of our compliance materials, potential penalties for breaches and our leniency programme to board directors and business leaders.

Partnerships will continue to be central to our work and we look forward to building on the close relationships we have forged with Trading Standards Institute and Citizens Advice during the transfer of business and consumer education responsibilities.

Communications and engagement

We aim to publicise our work widely to ensure we maximise the deterrent effect of our interventions and raise awareness of the law and specific consumer protection risks. Last year, we published 128 press notices and statements, boosting awareness of our actions. We were cited over 1,300 times in UK national papers and received over 3,300 mentions in regional titles, as well as over 1,800 broadcast media mentions. Taking one case as an example, our payday lending report was featured in 59 TV news stories, 136 newspaper articles and 143 radio reports.

We also made increasing use of social media to publicise our actions and engage with commentators. We increased our Twitter followers by nearly five times to almost 15,000. We tweeted 281 times and achieved our highest reach of over 100,000 with an estate agents anti-money laundering announcement. Our doorstep selling campaign launch had a reach of over 80,000, raising consumer awareness of this issues. Our LinkedIn followers increased during the period and numbered over 1,000 at the end of the year.

In the course of the year our enquiries centre received over 60,000 telephone enquiries, and also handled written contacts from over 17,000 businesses, organisations, Parliamentarians and members of the public.

We launched 10 formal public consultations over the year, including on our Annual Plan. And in addition to encouraging written responses, we held consultation workshops and seminars on a wide range of issues, from personal current accounts through to market exit. We also continued regular drop-in sessions for MPs and Peers to update them on our work.

During the year, we also gave evidence to a number of select committee and all-party grouping inquiries and investigations. This included appearances at the Public Accounts Committee on the regulation of consumer credit, the Parliamentary Commission on Banking Standards and the Communities and Local Government Committee on the private rented sector.

6 ORGANISATIONAL DELIVERY AND CAPABILITY

Our third and final strategic objective for the year was to build organisational delivery and capability. We recognised that in a time of transition this was more critical than ever, given the importance of investing in and retaining our people and preparing the ground for the new institutions.

Supporting transition

Some of the improvements we have made this year have been designed specifically to assist the transition process in 2013-14. For example, the changes to our CA98 procedures guidance anticipate the need to make decisions in a quicker and more robust way in the future, reflecting the aspirations of the Government for the CMA. Throughout the year we have also increased joint working with the economic regulators in anticipation of the wider coordination role given to the CMA, as well as working more closely with the CC on competition policy and the handover of cases.

We have worked closely with all our partners in the Consumer Protection Partnership, including TSS and Citizens Advice, to ensure a smooth transfer to the new consumer protection regime, which largely took effect in April 2013. We collectively faced a number of challenges to ensure collaboration and intelligence sharing would be effective from day one, so that there were no avoidable gaps in consumer protection.

Throughout the year, we also worked closely with the FCA, in preparation for the transfer of our consumer credit functions in April 2014 in particular, as we seek to address recommendations set out by the National Audit Office in its recent report on regulating the consumer credit market.

Enhancing our procedures

In October 2012, we published revised guidance on our Competition Act investigation procedures. One element of these changes was the implementation of a new decision making model. Under this model, the final decision on infringement is taken by a three-person Case Decision Group (CDG), whose members have not been involved in the decision to issue a Statement of Objections. The CDG is appointed by the new Policy Committee made up of senior staff and accountable to the Board. Following consultation we decided that other case decisions, such as whether to accept commitments offered by parties, or whether a case is appropriate for settlement, will remain the responsibility of the Senior Responsible Officer, a senior OFT official, subject to oversight from the Policy Committee.

We also introduced changes to other aspects of our procedures, including:

- providing parties with an opportunity to comment on a draft calculation of any proposed penalty

- enhanced oral hearings and state of play meetings
- further formalised internal check and balance procedures, and
- the publication of certain details of all our ongoing CA98 cases, including administrative timetables for each.

This guidance is part of an ongoing and wider evolution in the way in which we enforce competition law, helping prepare the ground for the CMA.

Our consultation also asked whether businesses and advisors would value further guidance on our approach to settlement, or whether this was best left to the CMA. We carefully considered the responses and concluded that the best approach is to progress this in the context of the creation of new guidance for the CMA, which is underway. Meanwhile, we remain open to considering settlement as part of our work on competition cases.

Improving enforcement skills and the use of intelligence

We established an Enforcement Academy, which focused on further improving our investigatory and case handling knowledge and skills across all our enforcement work. It provides specialist enforcement training, knowledge sharing and facilitated discussion forums, using a mix of OFT staff and external experts. The Academy ran 13 hands-on investigatory and enforcement training sessions in its first ten months to March 2013, as well as 16 know-how talks which attracted a total of 900 attendees.

We also made a significant investment in our cartels work, for example, building a dedicated intelligence function, developing a stronger, more expert investigator function, recruiting practiced criminal prosecutors and taking an increasingly focussed and forensic approach under experienced senior management.

We have continued to recruit staff with specialist skills to support our enforcement functions, as well as promoting experienced OFT staff.

We have put more effort into thinking about data and intelligence, and how this is embedded in our prioritisation process. This year, for the first time, alongside our Annual Plan, we published a Strategic Assessment which sets out the existing and emerging risks we see to consumers and businesses across the whole economy and provides the strategic context for our work.[12]

Developing our people

Skills investment

As an Investors in People (IIP) accredited organisation, we prioritise

[12] www.oft.gov.uk/about-the-oft/annual-plan-and-report/annual/strategic-assessment

skills development as an important investment. Despite the overall reduction in our funding, we increased our learning and development budget in 2012-13: our average spend was £764 per person.

We are committed to continuing to fund individual professional development and to support staff to develop the skills they need in preparation for the transition to new organisational arrangements.

Recruitment

On 31 March 2013, the OFT's workforce totalled 657 compared to 665 at the same point in 2012. During this financial year, we recruited 59 new permanent staff and had a turnover rate among permanent staff of 11.98 per cent. Following several large campaigns, the proportion of legal and economics staff increased from 24 per cent to 30 per cent during the year. Agency workers and short term appointments continue to be used to fill skills gaps especially at a time of transition to new institutions, and to resource peaks of work.

Talent management and leadership development

During the year we have continued to build on earlier work to attract, retain, develop and engage talented staff. Heads of Profession for all the professional communities within the OFT continue to support career development for their professional groups including delivering career workshops during the year. We have had a number of staff accepted onto Civil Service Talent Programmes, including the High Potential Development Scheme, the Deputy Director Talent Programme, the Future Leaders Scheme and the Civil Service Fast Stream. A leadership programme was implemented targeting change management skills and a series of presentations were delivered by external speakers to the senior leadership team to assist them in leading their teams through the transition. The Senior Civil Servant (SCS) succession plan continues to be monitored during the transition period, focusing on business critical roles. Although we have had a number of senior departures over the last 12 months, this reflects the marketable nature of our staff's skills, as well as usual turnover.

Employee engagement and IIP

Ninety per cent of OFT staff responded to the Civil Service engagement survey in 2012. The overall engagement index was 60 per cent, two points above the Civil Service average and one percentage point below the result for the previous year. We are working with our partners – BIS, the CMA leadership, CC and FCA – to ensure that we do as much as possible to engage people during this period and as they transfer into the new organisations.

The themes in the survey with the strongest association with staff engagement continued to be 'Leadership and managing change', 'My work' and 'My line manager'. Positive scores increased for all of these in the 2012 survey, with the second two garnering positive scores of over 70 per cent. Our action plans will continue to focus on them in the next year.

The IIP report in May 2012 confirming our IIP status concluded that the management development workshops provided to all staff had helped managers in particular understand and appreciate the expectations placed on them and greatly improved the quality of people management practices across the OFT. This finding was confirmed in the engagement survey results with an overall increase of four percentage points to questions related to 'My line manager'. We are on track to maintain our IIP status for the next period and a health check has been scheduled for the autumn of 2013.

Diversity

We continue to maintain and encourage a diverse workforce. On 31 March 2013, 51.7 per cent of all permanent staff and 43.5 per cent of SCS staff were female: we also have two female Board members; 24.5 per cent of staff declared themselves as being from an ethnic minority; 4.2 per cent of staff declared a disability and 3.6 per cent declared themselves as lesbian, gay or bisexual. The percentage of people making a diversity declaration increased across all categories this year, with an increase of 10.6 per cent on ethnicity, 4 per cent on disability and 11.8 per cent on sexual orientation.

The 2011 equal pay audit was published during the year and showed no significant gender pay gap. Flexible working is practiced at all levels in the OFT, including SCS. In the summer of 2012, the OFT participated in the Whitehall Internship Programme, providing two work experience placements to increase professional experience and workplace skills for college-age students from under-represented backgrounds.

The 2012 staff engagement survey showed no increase in staff claiming to have been discriminated against since 2011 and no staff reported having experienced discrimination due to age, disability, gender, ethnicity or sexual orientation. Equality and diversity is something we consider fully in our internal activities and in our work to make markets work well for consumers. The OFT's latest review, covering 2011-12, of how we have met the General Duty of the Equality Act 2010 is available on the OFT website.

7 IMPACT INDICATORS AND EVALUATION

Over the course of the Spending Review period, 2010-15, the impact of our work is assessed through indicators agreed with the Treasury as part of our 2011-15 Business Plan.[13] These are:

- Estimation of direct savings to consumers from the OFT's activities (Positive Impact Report) and associated benefit to cost ratio – to be published annually

- At least one independently audited in-depth ex-post evaluation of an intervention – to be published annually

- Provide customer service key performance indicators for: Consumer Credit Licensing, Mergers and Anti-Money Laundering supervision – to be published quarterly

- Provide statistics and information on the OFT's enforcement and non-enforcement activities, including results on appeal – to be published annually

- Publish statistics of direct settlement, third party interventions and undertakings in lieu – to be published annually.

The indicators for each year are published on our website.[14]

Evaluation

We are committed to gaining a better understanding of the impact of our work on consumers and the economy. Careful evaluation of our activities helps us prioritise, target, conduct and follow up our work to maximise our impact. It also helps us demonstrate whether we are delivering on our objectives and providing value for money.

Impact estimation

Our performance target with the Treasury commits us to calculating direct financial benefit-to-cost ratios for different OFT work areas. To meet this target our positive impact estimates are published and this year show an overall benefit-to-cost ratio for the OFT of 8.7 to 1.

For individual OFT work areas, the estimated average savings to consumers is £77 million from consumer protection enforcement, £136 million from competition law enforcement, £13.1 million from mergers and £195 million from market studies. The methodologies underlying these estimates – explained in the OFT's 2010 impact estimation guide – are conservative, excluding, for example, wider impacts such as the regime's deterrence of anti-competitive

[13] www.oft.gov.uk/about-the-oft/accessing-information/transparency/business-plan-indicators
[14] www.oft.gov.uk/about-the-oft/accessing-information/transparency

mergers. More information is included in our Positive Impact 2012-13 report.

Independent evaluations of interventions

This year we undertook an in-depth evaluation into the impact of our 2008 market study and the UTCCR test case on personal current accounts (PCAs). Our evaluation focussed on the impact of our recommendations on switching, transparency and unarranged overdraft charges (UOCs).

We identified substantial reductions in UOCs, including reductions in unpaid item charges and charges levied when unarranged lending is provided.

Overall, our evaluation estimated total annual consumer benefits of between £338 million and £928 million, depending on the extent to which the increases in arranged lending charges were driven by the reductions in UOC. Our evaluation considered that the work of the Financial Services Authority and pressure from consumer groups also contributed to the decline in UOCs, and as such we only attributed two-thirds of the benefit to the OFT: between £259 million and £619 million.

Our evaluation noted that PCA revenues from arranged lending charges and debit interest have since increased and that this may in part be a response by banks to the reduction in UOCs. However, these arranged charges are more transparent than UOCs and so consumers are more able to take them into account when shopping around for an account.

8 SUSTAINABILITY REPORT

We are committed to supporting the Government's Sustainable Development Strategies, which are designed to reduce impact on the environment. Our performance has been benchmarked against a 2009-10 baseline following the adoption of Greening Government Commitment Operation and Procurement (GGCOP) targets.

Performance improvements have been somewhat constrained this year because:

- The OFT will close on 31st March 2014 and the CMA will not be based at the same offices. As such, the introduction of Energy Conservation Measures at our current site has not been a viable option as it would not provide a return on investment.

- Following the successful sub-letting of parts of the OFT's building, occupancy levels have increased by c. 200 staff. As such, the overall demand on heating, cooling and ventilation has increased and resulted in higher energy consumption, with electricity usage increasing by 16 per cent as a result.

Overall Greenhouse Gas emissions reduced 13 per cent in year, with the biggest reduction of 45 per cent in gas usage due to a reduction in fugitive gas emissions following plant de-commission.

Performance

Travel

Our rail travel expenditure reduced by 38 per cent and taxi expenditure went down by 30 per cent. This year, air travel and car hire costs rose due to an increase in the number of investigations carried out (including criminal raids) and increased international travel to support both our enforcement and advocacy work.

Waste

There has been a 23 per cent increase in waste diverted from landfill and a 38 per cent increase in recycled waste. However, due to increased occupancy, there was a 31 per cent increase in the total waste generated from the building. Our recycling rate will improve further in the next 12 months with the introduction of food waste recycling from May 2013. Obsolete IT equipment continues to be recycled via an approved government supplier. And all OFT purchasing activity continues to comply with the EU public procurement directives to achieve maximum value for money and to minimise waste throughout the supply chain.

Paper

Our paper usage has been reduced by four per cent, which falls short of the 10 per cent GGCOP target. We did not achieve the reduction we hoped for in part due to an increase in the volume of casework. We expect the introduction of a Document Management system over the next year will help us to achieve the target in 2013-14.

Finite resource consumption

There has been a small increase in water usage since 2011-12, which is also due to increased occupation and a higher number of visitors to the building. There have also been incidents of water loss via cistern leaks, which is being managed by a replacement programme, due for completion at the end of 2013. We have, however, reduced our water usage by 20 per cent from the 2009-10 base year, and the cubic metre per person reduced by approximately 24 per cent. In the remaining months of occupation we will continue to work towards improving our environmental performance and achieving as many GGCOP targets as we can, as we develop our plans to exit the building.

9 OPERATING AND FINANCIAL REVIEW

The OFT's activities are funded by Parliamentary Vote. Funding comprises a Departmental Expenditure Limit (DEL) budget, which is set during the periodic Spending Review and covers day to day operational spending, and an Annually Managed Expenditure (AME) budget, which is agreed annually and covers the creation and utilisation of accounting provisions. Budgets are confirmed each financial year in a Supply Estimate. The OFT's DEL budget for 2012-13 was £57.4 million, and our AME budget was £45.3 million. Of the DEL budget £0.7 million related to capital expenditure cover and the balance to resource expenditure. The AME budget was entirely resource. The OFT's total resource funding requirement was therefore £102 million.

Actual resource outturn for the year was £87.9 million, an underspend of £14.1 million. Of this, £6.6 million is due to the non-take up of budgeted provisions. A further £5.4 million is due to our Supplementary Estimate being overstated. This funding should not have been made available to the OFT and was not spent. The remaining £2.1 million (four per cent) relates to our day-to-day operations being under-spent and of that, £1 million relates to the ring-fenced non-cash depreciation budget.

Our income included £13.4 million in respect of fees and charges levied on external customers in respect of licence fees charged for the administration of the Consumer Credit Act 1974 and £1 million in respect of fees charged for registration and supervision under the Money Laundering Regulations 2007. Of the Consumer Credit Licence fees collected, £3 million was surrendered to the Consolidated Fund.

We invested £0.3 million in capital additions in the year: £0.1 million on improvements to Fleetbank House and £0.2 million on IT enhancements. This represented an underspend of just over 50 per cent against the budget of £0.7 million. The underspend is due primarily to delays in our IT investment plans. This investment will now take place in 2013-14.

Auditors

Our resource accounts have been audited by the Comptroller and Auditor General, who has been appointed under statute and is responsible to Parliament. The cost of the audit (notional fee) was £80,000, which included £12,000 for the audit of the Trust Statement, which is published in Chapter 11. No non-audit work was undertaken by the auditors during the reporting period, hence no payments needed to be made for such work.

The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information, and to establish that our auditors are aware of that information. So far as he is aware, there is no relevant audit information of which our auditors are unaware.

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

Creditor payment, policy and performance

We are committed to the prompt payment of our suppliers and seek to pay all valid invoices within 30 days of receipt. During 2012-13, 78.2 per cent (2011-12: 83.8 per cent) of invoices were paid within 30 days with 47.6 per cent (2011-12: 47.2 per cent) paid within 10 days.

Sickness absence

After allowing for normal leave entitlement, 3.0 per cent of the total available working days were lost due to staff sickness absence.

10 RESOURCE ACCOUNTS

Auditable Sections

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

Service Contracts

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

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

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Remuneration (including salary) and pension entitlements

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

Remuneration (salary and payments in kind)

	2012-13		2011-12	
	Salary	Bonus payments	Salary	Bonus payments
Senior management	£000	£000	£000	£000
Clive Maxwell[15] Chief Executive from 1 July 2012	130 - 135	-	120 – 125	10 – 15
John Fingleton[16] Chief Executive (to 30 June 2012)	170 – 175 (full year equivalent 275 – 280)	-	275 – 280	-
Vivienne Dews[17] Executive Director	125 – 130	-	110 – 115	-
Sonya Branch[18] Executive Director	30 – 35 (full year equivalent 135 - 140)	-	-	-
Robert Laslett[19] Executive Director	10 – 15 (full year equivalent 125 – 130)	-	125 – 130	-

No Executive Board members received any benefits in kind in 2012-13 (2011-12: nil).

[15] Clive Maxwell was appointed Chief Executive from 1 July 2012. He was previously Executive Director, responsible for Goods and Consumer, Cartels and Criminal Enforcement, Services, Infrastructure and Public Markets, Mergers, and Pipeline and Performance.

[16] John Fingleton stepped down from the post of Chief Executive on 30 June 2013, however under the terms of his contract he continued to be paid by OFT until 30 September2013, spending the last three months on secondment to the Cabinet Office.

[17] Vivienne Dews is Executive Director responsible for Corporate Services, Consumer Credit Licensing and leading OFT's market work. Salary in 2011-12 reflects a reduction in working hours for part of the year.

[18] Sonya Branch was appointed Executive Director from 1 January 2013 and is responsible for Enforcement and Mergers.

[19] Robert Laslett retired on 30 April 2012.

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

The banded remuneration of the highest-paid director in OFT in 2012-13 was £170 - 175k (2011-12: £275–280k). This was 3.7 times (2011-12: 6.8) the median remuneration of the workforce, which was £47,065 (2011-12, £40,570).

In 2012-13, no (2011-12: nil) employees received remuneration in excess of the highest-paid director. Remuneration, excluding the highest paid director, ranged from £19.3k to £148.1k (2011-12: £19.3k - £138k).

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

	2012-13	2011-12
Band of highest paid Director's total remuneration (£000)	170 – 175	275 – 280
Median total remuneration	47,065	40,570
Ratio	3.7	6.8

The recruitment of additional front-line staff on short-term contracts in order to deliver services effectively has lead to an increase in the median pay figure.

Non-Executive Board Members

	2012-13	2011-12
	Salary	Salary
	£000	£000
Philip Collins (Chairman)	175 – 180	175 – 180
Alan Giles	20 – 25	20 – 25
Frédéric Jenny	20 – 25	20 – 25
Anthony Lea	20 – 25	20 – 25
Philip Marsden	20 – 25	20 – 25
William Moyes	20 – 25	20 – 25

No bonuses were paid to Non-Executive Directors in 2012-13 (2011-12: nil).

Non-Executive Directors are reimbursed with the cost of travelling to and from the OFT including for attending OFT Board and other meetings. These reimbursements totalled £5,927 in 2012-13 (2011-12: £8,996) and the OFT meets the resulting tax liability on behalf of those Directors.

Non-Executive Board Members appointment details are as follows:

	Date: (A) appointed (R) reappointed	Appointment expires or date of leaving
Philip Collins	(R) 1 October 2009	30 September 2013
Alan Giles	(R) 1 April 2011	31 March 2014
Frederic Jenny	(R) 1 April 2012	31 March 2014
Anthony Lea	(R) 1 April 2012	31 March 2014
Philip Marsden	(R) 1 April 2013	31 March 2014
William Moyes	(R) 1 April 2013	31 March 2014

Salary

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the OFT and treated by HM Revenue and Customs as a taxable emolument. No Board members received any benefits in kind during 2012-13 (2011-12: nil).

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. The bonuses reported in 2012-13 relate to performance in 2011-12 and the comparative bonuses reported for 2011-12 relate to the performance in 2010-11.

Pension Benefits

	Accrued pension at pension age as at 31 March 2013 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2013	CETV at 31 March 2012	Real increase in CETV
	£000	**£000**	**£000**	**£000**	**£000**
John Fingleton	30 – 35	2.5 – 5.0	442	391	29
Vivienne Dews	60 – 65 plus lump sum of 185 – 190	0.0 – 2.5 plus lump sum of 0.0 – 2.5	1,423	1,344	-
Clive Maxwell	30 – 35 plus lump sum of 100 – 105	2.5 – 5.0 plus lump sum of 7.5 – 10.0	455	392	38
Sonya Branch	10 – 15	0.0 – 2.5	136	130	(2)
Robert Laslett	25 – 30	0.0 – 2.5	519	512	6

The actuarial factors used to calculate CETVs were changed in 2012-13. The CETVs at 31 March 2012 and 31 March 2013 have both been calculated using the new factors, for consistency. The CETVs at 31 March 2012 therefore differ in some instances from the corresponding figures in the Remuneration Report for 2011-12 which were calculated using the previous factors.

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

Civil Service Pensions

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

Employee contributions are salary-related and range between 1.5 per cent and 3.9 per cent of pensionable earnings for classic and 3.5 per cent and 5.9 per cent for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from 1 October 2002 worked out as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

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

Cash Equivalent Transfer Values

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

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out The Occupational Pension Schemes (Transfer

Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

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

Compensation for loss of office

Robert Laslett received £94,000 as compensation for loss of office 2012-13 to which he was contractually entitled. This amount was included in the 2011-12 accounts as an accrual and disclosed in the notes to the remuneration table.

Clive Maxwell

Chief Executive and Accounting Officer

19 June 2013

Statement of Accounting Officer's Responsibilities

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

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

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis

- Make judgements and estimates on a reasonable basis

- State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts

- Prepare the accounts on a going concern basis

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

OFT Governance Statement 2012-13

This Statement comprises:

Part A	**Governance Framework: Explanation of the OFT's governance and accountability structure**
Part B	**Governance in 2012-13: An account of key issues and performance**
Annexes	**Supporting information on relevant statutes and committees**

Part A

Governance framework

The Office of Fair Trading (OFT) is an independent non-ministerial government department responsible for competition and consumer protection. It has a range of statutory functions, powers and duties. Its mission is to make markets work well for consumers. The Enterprise Act 2002 established the OFT as a statutory corporation, led by a Board, on 1 April 2003.

Key ways in which the OFT fulfils its aim are by:

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

Under the Enterprise Act 2002, the OFT has a number of general functions that support the exercise of its more specific consumer protection and competition law powers, duties and functions. The general functions comprise:

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

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

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

The OFT Board

The Chairman and Members of the OFT Board (which must consist of the Chairman and no fewer than four other members) are appointed by the Secretary of State under paragraph 1, Schedule 1 of the Enterprise Act 2002, as is the Chief Executive. The Board, as at 31 March 2013, comprised the non-executive Chairman, the Chief Executive, two executive and five non-executive directors. The Board operates according to the Rules of Procedure that it has adopted,[20] which are published on the OFT website and which are reviewed periodically.[21] These rules, where applicable, are to be read and interpreted together with the OFT's statutory powers and functions.

The Rules list various matters (set out in Annexe B) that are reserved for the involvement of the Board. This list of matters does not preclude other matters or decisions that have been delegated by the Board being referred to the Board. The Board reviews and, if satisfied, approves the Annual Plan made under section 3 of the Enterprise Act 2002, the Annual Report made under section 4 of the Enterprise Act 2002, and the Annual Accounts.

The Board establishes the overall strategic direction of the OFT within the policy framework laid down under the Enterprise Act 2002 and the resources allocated to the OFT by HM Treasury. It ensures that relevant guidance on the governance of public bodies and the principles of good corporate governance are duly regarded and that the OFT as a statutory body fulfils its statutory functions and its obligations in relation to the use of public funds in accordance with all statutory provisions applicable to the OFT.

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

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[20] The statutory power to make these rules is at paragraph 8, Schedule 1, Enterprise Act 2002.

[21] The Board Rules of Procedure were reviewed twice in 2012-13, in October 2012 and February 2013.

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

The Executive Committee, chaired by the Chief Executive, advises the Board and has overall responsibility *inter alia* for the day-to-day leadership and management of the organisation and its work. The Committee's work includes: developing annual and other performance objectives for the whole of the OFT for Board approval; ensuring delivery of the Annual Plan and other agreed objectives; ensuring best practice in risk management, decision-making, and quality control systems; approving substantial new work and projects; and leading and managing staff and ensuring that all resources are used efficiently and effectively.

The Policy Committee, chaired by the Chief Executive, was formed during 2012-13. It was initially set up (in October 2012) to consider OFT casework and policy relating to the Competition Act 1998 and the equivalent EU provisions. Its remit was extended from 1 March 2013 to oversee and scrutinise the development of OFT policy, projects and casework relating to competition, consumer, credit, markets and mergers, taking decisions where necessary.

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

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

The Finance and Risk Committee is chaired by an executive director. The Committee has responsibility for reviewing the risk management strategy and processes, as well as exercising corporate oversight of the risk and control framework. The Committee also oversees the OFT's financial management. It ensures that appropriate information relating to financial matters and risk is reported to the Executive Committee and to the Audit and Risk Assurance Committee.

Statutory Authorisations

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

The level of authorisation will depend on the particular role each staff member performs, and covers specific posts (including, but not restricted to: the Chief Executive; Executive Director; General Counsel; Director of Litigation; and Senior Directors and Directors in various nominated posts), as well as authorisations in respect of other senior civil servants and OFT staff generally. The Statutory Authorisations include the enactments listed at Annexe D. An updated version came into force on 1 January 2013.

Board Performance

Under its Rules of Procedure, the Board annually reviews its overall performance. In addition, at the end of each Board meeting, members are asked to review deliberations, interactions and decisions at that meeting. The individual performance of individual Board members (including the Chief Executive, but excluding other senior civil service members), is evaluated by the Chairman and any issues arising are raised with the individual. The Chair discusses with the Department for Business, Innovation and Skills (BIS) any issues which should be taken into account in considering terms of appointment or re-appointment. The non-executive directors as a group assess the performance of the Chairman, and the senior non-executive director provides feedback to the Chairman, and to BIS.

Corporate Governance Code

The OFT aims to comply with the *Corporate Governance Code*[22] where applicable. However, as the OFT is a non-ministerial department created by statute with members appointed by the Secretary of State, some sections of the Code (e.g. those pertaining to the involvement of Ministers and Permanent Secretaries on the Board) are not relevant to the OFT. For instance, the Chairman, being an independent non-executive, performs the role of lead non-executive Board Member set out in the Code. The Chairman also invites one non-executive to act as senior non-executive Director.

The OFT is subject to the general policy requirements set by the Government for all government departments, including those on diversity and equality,

[22] *Corporate governance in central government departments: Code of good practice* 2011, HM Treasury

freedom of information, information technology (including data security), human resources (including recruitment and remuneration), finance (including procurement), and transparency.

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

Risk management

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

Each Executive Committee attendee is required to review and maintain oversight over the arrangements for identifying and managing risk in the areas for which they are responsible and to report as appropriate to the Executive Committee, Audit and Risk Committee and the Board, in addition to providing the Accounting Officer with a report on how arrangements have been managed.

The Finance and Risk Committee has a rolling programme of review of the corporate risk register. Significant risks may also be reviewed by the Audit and Risk Committee who may then escalate the risk to the Board. The Board monitors working-level risks through a monthly report from the Executive Committee on key developments, and the complete corporate risk register is reviewed quarterly by the Board as part of the Executive Committee's performance report. The OFT's overall risk profile is informed monthly through an analysis of ongoing projects, with a summary of the rating of each project, which is reviewed by the Executive Committee and the Board.

The OFT applies risk management disciplines to its work. It incorporates post-project evaluation in the form of lessons learned studies where appropriate, and it also undertakes formal evaluation of selected projects. The method by which it assesses the consumer benefit attributable to its work has been independently reviewed. Work is conducted where appropriate under a formally prescribed project management approach, codified in the OFT's *Effective Project Delivery (EPD)* guidance. The EPD guidance, which covers *inter alia* risk management, was updated twice in 2012-13. The guidance was updated in April 2012 in relation to governance and the use of Steering Committees, and in October 2012 to reflect changes in procedures relating to investigations under the Competition Act 1998.

Internal Audit

The OFT has its own Internal Audit unit. The Head of Internal Audit is an OFT employee, and the audit service itself is contracted out. The Audit and Risk Assurance Committee approves the annual programme of work undertaken by Internal Audit and monitors progress throughout the year.

Part B

Governance in 2012-13

Board attendance

During 2012-13, the Board had 10 ordinary meetings and one full day strategy meeting. Ordinary meetings generally ran for 6-7 hours and all meetings were held at the OFT's offices. In addition, the Board is also updated on topical issues by occasional conference calls and emails. Attendance of Board members at ordinary Board and Committee meetings was as shown in the following table:

Board Members	Board*	Audit and Risk Assurance Committee	Remuneration Committee
Philip Collins	10/10		1/1
Clive Maxwell	10/10		
John Fingleton[23]	2/2		
Vivienne Dews	10/10		
Sonya Branch[24]	3/3		
Alan Giles	9/10	4/4	1/1
Frédéric Jenny	9/10		
Robert Laslett[25]	0/0		
Anthony Lea	9/10	4/4	
Dr Philip Marsden	9/10	4/4	1/1
Dr William Moyes	9/10		

This table sets out Board member attendance for Board meetings in the financial year 2012-13 (1 April 2012 – 31 March 2013)

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

[23] John Fingleton attended Board meetings up until his resignation took effect in July 2012.

[24] Sonya Branch's appointment as Executive Director commenced on 1 January 2013.

[25] There were no Board meetings in 2012-13 prior to Robert Laslett's resignation which took effect in April 2012.

Board and senior changes

Robert Laslett left the OFT at the end of April 2012. On 1 July 2012 Clive Maxwell was appointed Chief Executive following the departure of the former postholder, John Fingleton. Sonya Branch was appointed Executive Director, taking up her post in January 2013. There have been appointments at Senior Director level: Senior Director, Policy Group, two Senior Directors covering Services, Infrastructure and Public Markets and the appointment of a Chief Economist, who took up the post in April 2013.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee held four meetings in 2012-13. It discussed progress made against internal audits of the business, as well as the OFT's financial position. A key feature during this period was the focus on IT and IT disaster recovery; the Committee continues to receive updates on IT at each meeting. A new approach to the review of corporate risk by the Finance and Risk Committee was approved and put in place in July 2012. As a result, the Audit Committee took the opportunity to review how Groups managed risk at a local level.

Remuneration Committee

The Remuneration Committee met once in 2012-13. It reviewed the operation of the annual senior civil service performance review and moderation process, and decided on the final distribution of performance payments. The Committee also approved amendments to the OFT's senior civil service performance management and pay policy to take account of changes to the senior management structure.

Transition

The Government has announced that the OFT will cease to exist in April 2014, with its functions transferring to successor bodies. The OFT has a dedicated Transition Team to project manage the transition. Its role includes: liaison with the Department for Business, Innovation and Skills (BIS), successor bodies, the Competition Commission (CC), and other interested parties on transition-related issues; facilitating expert input into the process; ensuring effective communication with staff; coordinating the closure of the OFT; and keeping Executive Committee and the Board informed.

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

Consumer Credit

The Financial Services Act 2012 made provision for the Government to transfer the regulation of consumer credit to the Financial Conduct Authority (FCA). A new regulatory regime for consumer credit is currently being designed, and is intended to be in operation by the FCA from 2014. There will be a two year period during which the FCA will assess the suitability of firms wishing to stay in the market, as well as new entrants, with their steady state regime in place from April 2016. The OFT is working closely with the FCA and HM Treasury to ensure that the OFT's knowledge and experience of consumer credit is captured in the design of the new regime and that a smooth and effective transition is achieved.

Consumer protection

On 11 April 2012 the Government announced proposals to reform the consumer landscape: to make Citizens Advice serve as a champion for consumer information across a range of sectors; to give the Trading Standards Institute (TSI) responsibility for business education and consumer codes; and to create a new National Trading Standards Board (NTSB) in England and Wales, with similar arrangements in Scotland under the leadership of the Convention of Scottish Local Authorities (CoSLA). The OFT will continue to lead where there is a systemic problem in a market (where competition or choice is not working well) and will retain its international liaison and coordination functions. Otherwise, local authority Trading Standards Services (TSS) will lead on all consumer protection issues other than unfair contract terms, where leadership will remain with the OFT. By 1 April 2013 most of the consumer regime changes had been implemented with TSS, TSI and Citizens Advice services taking a greater role. The OFT closed the Consumer Code Approval Scheme (CCAS) at the end of March 2013. TSI's new consumer codes approval scheme came into operation in April 2013. Estate agency responsibilities will transfer to TSS on 1 April 2014.

Competition and Markets Authority (CMA)

Lord Currie was appointed as Chair Designate of the CMA in July 2012, and Alex Chisholm took up the post of Chief Executive Designate in March 2013. They are leading the organisational design of, and arrangements for, the new body, supported by a CMA Transition Team which draws on secondees from BIS, the OFT and the CC. The CMA Leadership and Transition Team work closely with Government, the OFT and the CC to ensure a smooth and effective transition. The CMA will take on all of the remaining functions at the OFT and those of the CC.

Organisational development

An Organisational Development Project was set up in March 2012 to coordinate the implementation of improvements in the OFT in legal and economic advisory work, procedures under the Competition Act 1998, and the work of the

Enforcement Academy, established in May 2012. The Academy ran 13 hands-on investigatory and enforcement training session in its first ten months to March 2013. The newly formed Enforcement and Mergers Management Team has undertaken some related work, including setting up an 'enforcement tracker' for Competition Act cases and will undertake a legal and economic checks and balances 'lessons learnt' review in 2013-14.

Risk management

The OFT continues to operate within its risk and control framework using the Board's approved statement of risk appetite. The corporate risk register is kept under regular review, with individual risks being reviewed by the Finance and Risk Committee on a periodic basis. Work was carried out during the year to assess the strength of the OFT's controls to manage the risk of financial loss. The work comprised a high level assessment reviewed by the Finance and Risk Committee, together with work to review lower-level controls in key areas. With the approval of the Audit and Risk Assurance Committee, in July 2012 the Finance and Risk Committee revised the corporate risk process.

Major risks and issues

The OFT has considered a number of key risks and issues during the course of 2012-13 and taken necessary steps to mitigate these risks. An overarching issue was transition of its functions to successor bodies, the arrangements for managing which are described in the section **'Transition'** above.

The OFT managed its finances to accommodate several exceptional litigation-related costs. The uncertainty associated with litigation means that there will continue to be a financial risk for the remaining life of the OFT. The OFT's budget was supplemented in-year to deal with costs associated with litigation and withdrawing from Fleetbank House.

A focus of attention was on the OFT's IT infrastructure, especially that relating to disaster recovery; the Audit and Risk Committee took a close interest in this as noted above.

Data security

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

The number of reported security breaches increased slightly from 61 in 2011-12 to 63 in 2012-13. The small increase partly reflects a more rigorous approach to reporting and recording of all security incidents and breaches during 2012-13 alongside other initiatives such as increased monitoring, better staff engagement, more effective communication on information security issues and mandatory information security training for all staff. These actions have raised staff awareness. As is standard practice, either the Departmental Security Officer or the Deputy investigate all breaches. Two breaches were reported to the Information Commissioner's Office (ICO). The ICO has reported on one of the breaches, on which it decided to take no action. The OFT awaits a report from the ICO on the second breach.

Ninety nine per cent of staff completed the Civil Service Learning Protecting Information Level 1 training. The OFT is continuing to use the Government's Information Assurance Maturity Model to further improve its approach to information security.

In November 2012 the OFT's IT network systems underwent a health check by a Communications Electronic Security Group (CESG) accredited security company. This health check revealed some vulnerabilities related to legacy systems, particularly the 15 year old case management system and PROMOD, the credit licensing system. A remedial action plan was drawn-up to address the major issues by 31 March 2013. The OFT has taken action to address many of the issues identified and tightened user validation. A full remedy would require significant investment which, given the closure of the OFT at the end of March 2014, it is not proposed to make.

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

Diversity

The OFT continues to maintain and encourage a diverse workforce. On 31 March 2013, 51.7 per cent of all permanent staff and 43.5 per cent of SCS staff were female: the OFT also has two female Board members. 24.5 per cent of staff declared themselves as being from an ethnic minority, 4.2 per cent of staff declared a disability and 3.6 per cent declared themselves as lesbian, gay or bisexual. This year, declaration rates increased across all diversity categories, with an increase of 10.6 per cent on ethnicity, four per cent on disability and 11.8 per cent on sexual orientation.

Internal Audit review

Internal audit work is contracted out to Price Waterhouse Cooper under the direction of an in-house Head of Internal Audit. Internal Audit carried out a programme of eight audits, one review and a continuing programme of audit consultancy and follow-up to drive improvement in 2012-13. Throughout the year the Head of Internal Audit met regularly with the Executive to ensure the work of internal audit was targeted, timely and appropriate; that areas of concern were highlighted and the progress of the plan was monitored. Overall the Head of Internal Audit has concluded that moderate assurance has been achieved, that there is basically a sound system of internal control, designed to meet the OFT's objectives and that controls are being applied consistently.

However, internal audit identified weaknesses in the design and operation of some controls related to specific activities which could put the achievement of some of the OFT's objectives at risk.

Four reviews achieved a high level of assurance, and two reviews achieved moderate assurance. One review was a continuation of work started in 2011-12, throughout the year, to support and input to improvements made to IT resilience, the Comms Room and data storage systems.

Two further reviews, in the areas of IT contracts and financial controls, received limited assurance and the OFT is improving controls in these areas.

Accounting Officer's Assessment

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of internal Audit and by Letters of Assurance received from budget holders across the OFT, and by advice from the Audit and Risk Assurance Committee.

Key risks which could affect the achievement of the Office's objectives are managed actively under the risk management arrangements described above, with progress being reported regularly to the Audit and Risk Assurance Committee and the Board. The impending organisational changes have created a fresh set of risks, for which I have established dedicated structures and processes to help to manage.

Overall, on the basis of assurances received I am satisfied that there is a sound system of internal control.

Clive Maxwell

Chief Executive and Accounting Officer

19 June 2013

Annexe A

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

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

Annexe B

Matters reserved for Board involvement*

B.1. Approval of settlement of long-term funding arrangements with HMG.

B.2. Approval of the Annual Plan and the Budget and monitoring performance in delivery of the plan and performance objectives.

B.3. Approval of Resource Accounts and Annual Report.

B.4. Approval of changes in office location and lease terms.

B.5 Approval of Market Investigation References to the Competition Commission.

B.6. Approval of Market Studies.

B.7. Review of strategy and systems for identifying and developing leadership, for succession planning, for governance and for business continuity within the organisation.

B.8. Review of the risk appetite for the organisation and the framework for assessing, managing and taking risks, to ensure that risks can be assessed, managed and taken prudently and that there is clear accountability for managing risks.

B.9. Review of strategy for the recruitment, retention and development of staff to ensure that officials are equipped with the relevant skills and guidance to perform their assigned roles effectively and efficiently.

B.10. Review of significant changes to organisational structure, governance and OFT's position within the competition and consumer regimes.

B.11. Review of matters which may significantly affect:

a. the reputation of the OFT or its relations with Ministers and other Government departments, courts, enforcement partners, the European Commission and national competition or consumer agencies

b. the evolution or development of the competition or consumer law regimes or which raise significant general issues of policy, principle or strategy for the present or future work of the OFT

such matters (including the commencement or defence of major litigation) are to be identified through close communication between the Chairman and the Chief Executive.

B.12. Approval of the application of the section 36 exemption (effective conduct of public affairs) under the Freedom of Information Act 2000.

*The Board has supreme authority for all aspects of the executive's operations. However, the Board chooses to delegate many of these powers. A list of the powers which the Board has chosen not to delegate is set out in Annexe B. The list of matters reserved for Board involvement (Annexe B) replicates Annexe A of the Board rules of procedure. No new matters have been reserved during the course of 2012-13.

Annexe C

OFT Committee Structure members as at March 2013

Board
- Philip Collins – Chairman (Chair of the Board)
- Clive Maxwell – Chief Executive Officer
- Sonya Branch – Executive Director
- Vivienne Dews – Executive Director
- Alan Giles – Non-executive member
- Frédéric Jenny – Non-executive member
- Anthony Lea – Non-executive member
- Dr Philip Marsden – Non-executive member

Remuneration Committee
- Philip Collins – Chairman (Chair)
- Alan Giles – Non-executive Board member
- Dr Philip Marsden – Non-executive Board member

Policy Committee
- Clive Maxwell (Chair)
- Sonya Branch – Executive Director
- Vivienne Dews – Executive Director
- Frances Barr – General Counsel
- Cavendish Elithorn – Senior Director, Goods and Consumer
- Jackie Holland – Senior Director, Policy
- Ali Nikpay – Senior Director, Cartels and Criminal Enforcement Group
- Ann Pope – Senior Director, Services, Infrastructure, Public markets
- Mary Starks – Senior Director, Services, Infrastructure, Public markets
- Amelia Fletcher – Chief Economist

Executive Committee (ExCo)
- Clive Maxwell (Chair)
- Sonya Branch – Executive Director
- Vivienne Dews – Executive Director

Finance and Risk Committee (FRC)
- Vivienne Dews – Executive Director (Chair)
- Sonya Branch – Executive Director
- Mary Starks – Senior Director, Services, Infrastructure, Public markets
- Cavendish Elithorn – Senior Director, Goods and Consumer
- Ali Nikpay – Senior Director, Cartels and Criminal Enforcement Group
- Kate Ivers – Director, Finance
- Paul Latham – Director, Communications
- Erik Wilson – Director Executive Office, General Counsel's Office, Pipeline and Performance Group
- Nerilee Telford – Director, Litigation
- In attendance: Marina McQuade – Head of Internal Audit

Audit and Risk Assurance Committee
- Anthony Lea – Non-executive Board member (Chair)
- Alan Giles – Non-executive Board member
- Dr Philip Marsden – Non-executive Board member

Annexe D

Statutory Authorisations – relevant statutes

Competition functions

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

Consumer functions

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

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of Fair Trading for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the Audit of the Financial Statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2013 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2013 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given in the annual 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 Report to be audited are not in agreement with the accounting records or 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.

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

19 June 2013

Statement of Parliamentary Supply

Summary of Resource Outturn 2012-13 as at 31 March 2013

		Estimate			Outturn			2012-13	2011-12 Outturn
	Note	Voted	Non-voted	Total	Voted	Non-voted	Total	Voted Outturn compared with Estimate: saving/ (excess)	
		£000	£000	£000	£000	£000	£000	£000	£000
Departmental Expenditure Limit									
- Resource	2.1	56,764	-	56,764	49,141	-	49,141	7,623	57,219
- Capital	2.2	669	-	669	343	-	343	326	590
Annually Managed Expenditure									
- Resource	2.1	45,300	-	45,300	38,735	-	38,735	6,565	4,770
- Capital		-	-	-	-	-	-	-	-
Total Budget		102,733	-	102,733	88,219	-	88,219	14,514	62,579
Non-Budget									
- Resource		-	-	-	-	-	-	-	-
Total		102,733	-	102,733	88,219	-	88,219	14,514	62,579
Total Resource		102,064	-	102,064	87,876	-	87,876	14,188	61,989
Total Capital		669	-	669	343	-	343	326	590
Total		102,733	-	102,733	88,219	-	88,219	14,514	62,579

Net Cash Requirement 2012-13 as at March 2013

Note	2012-13		2012-13	2011-12
	Estimate	Outturn	Outturn compared with Estimate: saving/	Outturn
	£000	£000	£000	£000
4	58,338	51,281	7,057	51,321

Administration Costs 2012-13 as at 31 March 2013

Note	2012-13	2012-13	2011-12
	Estimate	Outturn	Outturn
	£000	£000	£000
3	12,748	11,883	13,934

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

The notes on pages 76 to 101 form part of these financial statements.

Statement of Comprehensive Net Expenditure for the period ended 31 March 2013

		2012-13	2011-12 Re-stated
	Note	£000	£000
Administration Costs:			
Staff Costs	7	7,716	8,116
Other Costs	8	8,653	11,217
Income	10	(4,486)	(5,401)
Programme Expenditure:			
Staff Costs	7	28,978	27,574
Other Costs	9	54,062	20,543
Income	10	(10,060)	(7,240)
Net Operating Costs		**84,863**	**54,809**
Total expenditure		99,409	67,450
Total income		(14,546)	(12,641)
Net Operating Costs		**84,863**	**54,809**
Other Comprehensive Net Expenditure			
Net loss/(gain) on actuarial review of by-analogy pension scheme		57	69
Total Comprehensive Net Expenditure		**84,920**	**54,878**

These accounts are produced on a going concern basis (see note 1.21).

The notes on pages 76 to 101 form part of these financial statements.

Statement of Financial Position as at 31 March 2013

	Note	31 March 2013 £000	31 March 2012 £000
Non-current assets:			
Property, plant and equipment	11	2,182	3,262
Intangible assets	12	77	148
Total non-current assets		2,259	3,410
Current assets:			
Trade and other receivables	17	2,232	3,016
Cash and cash equivalents	18	3,938	3,609
Total current assets		6,170	6,625
Total assets		8,429	10,035
Current liabilities:			
Trade and other payables	19	(12,301)	(16,070)
Total current liabilities		(12,301)	(16,070)
Total assets less current liabilities		(3,872)	(6,035)
Non-current liabilities			
Provisions	20	(46,530)	(7,738)
Total non-current liabilities		(46,530)	(7,738)
Assets less liabilities		**(50,402)**	**(13,773)**
Taxpayers' Equity:			
General Fund		(50,459)	(13,891)
Revaluation reserve		-	4
Donated asset reserve		57	114
Total taxpayers' equity		**(50,402)**	**(13,773)**

Clive Maxwell
Chief Executive and Accounting Officer

19 June 2013

The notes on pages 76 to 101 form part of these financial statements.

Statement of Cash Flows for the period ended 31 March 2013

	Note	2012-13	2011-12 re-stated
		£000	£000
Cash flows from operating activities:			
Net operating cost		(84,863)	(54,809)
Adjustment for non-cash transactions	8,9	46,057	7,139
Decrease in trade and other receivables	17	784	1,119
Less movements in receivables relating to items not passing through the SOCNE		-	(1,086)
(Decrease)/increase in trade and other payables	19	(3,769)	8,278
Less movements in payables relating to items not passing through the SOCNE		(3,342)	(3,609)
Use of provisions	20	(5,805)	(460)
Net outflow from operating activities		**(50,938)**	**(43,428)**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(343)	(590)
Net cash outflow from investing activities		**(343)**	**(590)**
Cash flows from financing activities			
From the Consolidated Fund – current year		51,610	54,930
From the Consolidated Fund – prior year		-	1,086
Advance from the Contingencies Fund		8,800	-
Repayment to the Contingencies Fund		(8,800)	-
Machinery of Government transfer		-	(7,180)
Net financing		**51,610**	**48,836**
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**329**	**4,818**
Payments of amounts due to the Consolidated Fund		-	(123)
Net increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**329**	**4,695**
Cash and cash equivalents at the beginning of the period	18	**3,609**	**(1,086)**
Cash and cash equivalents at the end of the period	18	**3,938**	**3,609**

The notes on pages 76 to 101 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the period ended 31 March 2013

	Note	General Fund	Revaluation Reserve	Donated Asset	Total Reserves Reserve
		£000	**£000**	**£000**	**£000**
Balance at 31 March 2011		**(3,139)**	**31**	**171**	**(2,937)**
Net Parliamentary Funding – drawn down		54,930	-	-	54,930
Supply payable adjustment		(3,609)	-	-	(3,609)
CFERs payable to the Consolidated Fund		(123)	-	-	(123)
Machinery of Government transfer		(7,180)	-	-	(7,180)
Net operating cost		(54,809)	-	-	(54,809)
Non-cash adjustments:					
Auditor's remuneration	8	81	-	-	81
Actuarial loss		(69)	-	-	(69)
Movement in Reserves:					
Recognised in Statement of Comprehensive Net Expenditure				(57)	(57)
Transfer between reserves		27	(27)	-	-
Re-stated balance at 31 March 2012		**(13,891)**	**4**	**114**	**(13,773)**
Net Parliamentary Funding – drawn down		51,610	-	-	51,610
Net Parliamentary Funding – deemed		3,609	-	-	3,609
Unspent Supply repayable to the Consolidated Fund		(3,938)	-	-	(3,938)
CFERs payable to the Consolidtaed Fund		(3,013)	-	-	(3,013)
Net operating cost		(84,863)	-	-	(84,863)
Non-cash adjustments:					
Auditor's remuneration	8	80	-	-	80
Actuarial loss	20.2	(57)	-	-	(57)
Movement in Reserves:					
Recognised in Statement of Comprehensive Net Expenditure	8,9	-	-	(57)	(57)
Transfer between reserves		4	(4)	-	-
Balance at 31 March 2013		**(50,459)**	**-**	**57**	**(50,402)**

The notes on pages 76 to 101 form part of these financial statements.

Notes to the Resource Accounts

1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2012-13 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the OFT for the purpose of giving a true and fair view has been selected. The particular policies adopted by the OFT are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

1.1 Accounting convention

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

1.2 Property, plant and equipment

Expenditure on property, plant and equipment, including leasehold improvements, which satisfy the OFT's capitalisation criteria, including the threshold of £5,000, is capitalised at cost in the month of purchase. Grouping of assets which would otherwise fall below the OFT's capitalisation threshold, is only permitted where omission would have a significant impact on the true and fair status of the accounts. All property, plant and equipment is reviewed annually for impairment and is carried at fair value. All non-property operational assets are deemed to be short-life or low-value assets and are, therefore, valued on the basis of depreciated replacement cost as an approximation of fair value.

1.3 Donated assets

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

1.4 Intangible non-current assets

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

1.5 Depreciation

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

Asset lives are normally in the following ranges:

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

1.6 Research and development

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

1.7 Operating income

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

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

Income received which relates to services not carried out by the end of the financial year, is moved to the Statement of Financial Position as deferred income and released when the service is subsequently provided.

1.8 Foreign exchange

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

1.9 Financing

The OFT is primarily resourced by funds approved by Parliament through the annual Appropriation Act. Resources are drawn down each month to meet expenditure requirements and are credited to the General Fund. Some of the OFT's resource requirement is met by charging fees for certain activities, such as the issuing of Credit Licences and Anti-Money Laundering registrations. The level of income that can be used in support of the OFT's activities (Appropriations in Aid) is approved by Parliament in the Appropriation Act.

1.10 Trade receivables

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

1.11 Staff costs

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

1.12 Pensions

Most past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described at Note 9. The OFT recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the OFT recognises the contributions payable for the year.

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

1.13 Early departure costs

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

1.14 Provisions

The OFT provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the real rate set by HM Treasury; where it is not significant estimated cash flows are not discounted. The rates in force at 31 March 2013 are:

Rate	Real rate
Short-term (up to 5 years)	-1.80%
Medium-term (over 5 years up to 10 years)	-1.00%
Long-term (in excess of 10 years)	2.20%

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

1.15 Contingent Liabilities

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

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

1.16 Value Added Tax (VAT)

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

1.17 Operating leases

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

1.18 Financial Instruments

The OFT does not hold any complex financial instruments. The only financial instruments included in the accounts are receivables and payables (Notes 17 and 19). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when there is evidence that the OFT will be unable to collect an amounts due in accordance with agreed terms.

1.19 Impending application of newly issued accounting standards not yet effective

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

IFRS 9 – Financial Instruments
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interests in Other Entities
IFRS 13 – Fair Value Measurement
IAS 27 – Separate Financial Statements
IAS 28 – Investments in Associates and Joint Ventures

These standards are currently not applicable within government departments.

The revised standard IAS 19 – Post-employment Benefits will not be applicable until 2013-14.

1.20 Administration and Programme costs

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

1.21 Going concern

The OFT ceases to exist at the end of March 2014. The bulk of the functions currently carried out by the OFT will move to the Competition and Markets Authority (CMA). This is regarded as a Machinery of Government move. The OFT's Consumer Credit Licensing function will transfer to the Financial Conduct Authority (FCA). Most property, plant and machinery assets will transfer to the CMA, the rest, fully depreciated, will be disposed of. In these circumstances it is held that these accounts continue to be produced on a going concern basis.

1.22 Re-statement of prior year figures

On 31 March 2012 responsibility for the functions of Consumer Direct (CD) was transferred to Citizens Advice. This year's accounts, therefore, do not include costs and revenue for CD operations. For comparison purposes prior year figures have been re-stated to remove the impact of transactions relating to CD. As a result the following key figures have changed:

	2011-2 as published	CD transactions to be removed	2011-12 figures re-stated
Net operating cost (SoCNE)	61,989	7,180	54,809
Financing (Cash Flow Statement)	56,016	7,180	48,836

As a result of this change the following sections of the financial statements and supporting notes have been re-stated:

Statement of Comprehensive Net Expenditure

Statement of Cash Flows

Statement of Changes in Taxpayers' Equity

Analysis of net resource outturn by section (note 2.1)

Reconciliation of net resource outturn to net operating cost (note 3.1)

Reconciliation of Net Cash Requirement to increase/(decrease) in cash (note 4)

Statement of Operating Costs by Operating Segment (note 6)

Staff costs (note 7.1)

Number of persons employed (note 7.2)

Programme costs (note 9)

Analysis of income (note 10.1)

2 Net outturn

2.1 Analysis of net resource outturn by section

	2012-13									2011-12
	Outturn							Estimate		Outturn re-stated
	Administration			Programme			Total			
	Gross	Income	Net	Gross	Income	Net		Net total	Net total compared to estimate	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limit										
Voted: A	16,369	(4,486)	11,883	44,305	(7,047)	37,258	49,141	56,764	7,623	57,219
Annually Managed Expenditure										
Voted: B	-	-	-	38,735	-	38,735	38,735	45,300	6,565	4,770
Total	16,369	(4,486)	11,883	83,040	(7,047)	75,993	87,876	102,064	14,188	61,989

The Supplementary Estimate, was overstated by £5.4M. This additional funding should not have been made available to OFT and has not been spent. The increase in Annually Managed Expenditure is due to the inclusion of a provision for an onerous lease on Fleetbank House, the discounted value of which is £43.7 million.

2.2 Analysis of net capital outturn by section

	2012-13					2011-12
	Outturn			Estimate		Outturn
	Gross	Income	Net	Net total	Net total compared to Estimate	Net
	£000	£000	£000	£000	£000	£000
Spending in Departmental Expenditure Limit						
Voted:						
A	343	-	343	669	326	590
Annually Managed Expenditure						
Voted:						
B	-	-	-	-	-	-
Total	343	-	343	669	326	590

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

3.1 Reconciliation of net resource outturn to net operating cost

	Note	2012-13 £000	2011-12 re-stated £000
Total resource outturn in Statement of Parliamentary Supply	2	87,876	61,989
Machinery of Government change		-	(7,180)
Less: income payable to the Consolidated Fund		(3,013)	-
Net operating costs in Statement of Comprehensive Net Expenditure		84,863	54,809

3.1 Outturn against final Administartion Budget and Administration net Operating cost

	2012-13 Outturn £000	2011-12 Outturn £000
Estimate – administration costs limit	12,748	16,794
Outturn – gross administration costs	16,369	19,335
Outturn – gross income relating to administration costs	(4,486)	(5,401)
Outturn - net administration costs	11,883	13,934

4 Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate: Saving/(excess) £000	2011-12 outturn £000
Resource Outturn	2.1	102,064	84,863	17,201	61,988
Capital Outturn	2.2	669	343	326	590
Accruals to cash adjustment					
Depreciation	8,9	(2,495)	(1,493)	(1,002)	(1,886)
New provisions and adjustments to previous provisions	8,9	(50,700)	(44,540)	(6,160)	(5,230)
Other non-cash items	8,9	-	(23)	23	(24)
Adjustments to reflect movements in working balances:					
Changes in receivables	17	-	(785)	785	(32)
Changes in payables	19	3,400	4,098	(698)	(4,668)
Amounts surrendered to the Consolidated fund		-	3,013	(3,013)	123
Use of provisions	20	5,400	5,805	(405)	460
Net cash requirement		**58,338**	**51,281**	**7,057**	**51,321**

5 Income payable to the Consolidated Fund

5.1 Analysis of income payable to the Consolidated Fund

Income payable to the Consolidated Fund in 2012-13 amounted to £3,012,937 (2011-12: nil).

5.2 Consolidated Fund income

Full details of income collected as agent of the Consolidated Fund are in the OFT's Trust Statement, published separately as an annexe to these financial statements.

6 Statement of Operating Costs by Operating Segment

OFT recognises three reportable segments within the accounts:

Consumer Credit Group and Anti-Money Laundering (**CCG/AML**) are self-funding activities. Their financial objective is to recover their costs, including attributed central overheads, through the levying of fees. Where CCG/AML costs are not chargeable to fees but are borne by the OFT, such costs are not included in the CCG/AML figures in the table below, nor in the Fees and Charges table (note 10.2). CCG is responsible for administering the Consumer Credit Act 1974. This includes all aspects of the credit licensing regime, casework and other initiatives to achieve compliance with the Act and to ensure consumers are not harmed. AML supervises estate agents and non-FSA authorised consumer credit lenders under the Money Laundering Regulations 2007.

During 2012-13 OFT's other non-fee earning frontline services were split into two market-oriented groups: Services, Infrastructure and Public Markets, and Mergers (SIPM) and Goods and Consumer and Cartels and Criminal Enforcement (GC&CCE). Funding for these two segments was an allocation of OFT's budget according to their relevant needs.

These three segments were reported to the Chief Operating Decision Maker (CODM) on a monthly basis, together with non-frontline operations. Only operating costs and income were reported to the CODM, therefore no assets are included within the following table.

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

	2012-13			2011-12 re-stated		
	Expenditure	Income	Net	Expenditure	Income	Net
	£000	£000	£000	£000	£000	£000
CCG/AML	11,477	(14,399)	(2,922)	12,148	(12,572)	(424)
SIPM	18,454	-	18,454	21,970	-	21,970
GC&CCE	25,821	-	25,821	33,371	(69)	33,302
Totals	55,752	(14,399)	41,353	67,489	(12,641)	54,848

6.1 Reconciliation between Operating Segments and Statement of Comprehensive Net Expenditure

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

	2012-13		
	Expenditure £000	Income £000	Net £000
Totals as per table above	55,752	(14,399)	41,353
Provision for onerous lease	43,657	-	43,657
Miscellaneous income	-	(147)	(147)
Totals as per Statement of Comprehensive Net Expenditure	99,409	(14,546)	84,863

6.2 Reconciliation between Operating Segments and Note 2

The adjustments shown in note 6.1 also apply here.

7 Staff numbers and related costs

7.1 Staff costs

Staff costs comprise:

	2012-13			2011-12 re-stated
	Total	**Permanently employed staff**	**Others**	**Total**
	£000	**£000**	**£000**	**£000**
Wages and salaries	29,505	24,406	5,099	28,251
Social security costs	2,287	2,287	-	2,275
Pension costs	4,914	4,914	-	4,890
Sub-total	**36,706**	**31,607**	**5,099**	**35,416**
Other staff costs	220	220	-	626
Less recoveries in respect of outward secondments	(232)	(232)	-	(352)
Total net costs*	**36,694**	**31,595**	**5,099**	**35,690**

Of which:				
Charged to administrative costs	**7,716**	**5,666**	**2,050**	**8,116**
Charged to programme expenditure	**28,978**	**25,929**	**3,049**	**27,574**
Total	**36,694**	**31,595**	**5,099**	**35,690**

* Of the total, nil has been charged to capital.

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

For 2012-13, employer contributions of £4,835,083 were payable to the PCSPS (2011-12: £4,798,111) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012-13 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £73,520 (2011-12: £85,226) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £5,665, 0.8 per cent (2011-12: £6,286, 0.8 per cent) of pensionable pay were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were nil (2011-12: nil). Employer contributions prepaid at that date were nil (2011-12: nil).

7.2 Number of persons employed

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

	2012-13			2011-12 re-stated
	Total	**Permanent staff**	**Others**	**Total**
Goods and Consumer, and Cartels and Criminal Enforcement Protection	151	139	12	165
Credit Licensing and Anti-Money Laundering	144	101	43	126
Services, Infrastructure and Public Markets, and Mergers	112	109	3	108
Professional Support *	128	118	10	107
Back Office **	116	91	25	119
Total	**651**	**558**	**93**	**625**

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

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

7.3 Reporting of Civil Service exit packages

	2012-13			2011-12 re-stated		
	Compulsory redundancies	Other departures	Total departures	Compulsory redundancies	Other departures	Total departures
Exit package cost band	Number	Number	Number	Number	Number	Number
<£10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	-	2	1	3
£25,000 - £50,000	-	-	-	-	-	-
£50,000 - £100,000	-	-	-	-	1	1
Total number of exit packages by type	-	-	-	2	2	4
Total cost of exit packages by type (£000)	-	-	-	14	13	27

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where OFT has agreed early retirements, the additional costs are met by OFT and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and would not be included in the table if they occurred. There were no retirements on the grounds of ill-health in 2012-13 (2011-12: nil).

7.4 Review of tax arrangements of public sector appointees

As part of the *Review of Tax Arrangements of Public Sector Appointees* published by the Government in May 2012, OFT is required to publish information in relation to the number of off-payroll engagements at an annual cost in excess of £58,200. The information laid down in the guidance to the above publication is as follows:

Off-payroll engagements at a cost in excess of £58,200 per annum that were in place as of 31 January 2012:

Number in place as at 31 January 2012	7
of which:	
Number that have since come onto OFT's payroll	-
Number that have since been re-negotiated/re-engaged, to include contractual clauses allowing the OFT to seek assurance as to their tax obligations	7
Number that have not been successfully re-negotiated, and therefore continue without contractual clauses allowing OFT to seek assurance as to their tax obligations	-
Number that have come to an end	6
Total	1

New off-payroll engagements between 23 August 2012 and 31 March 2013, for more than £220 per day and more than six months:

There were no new engagements between 23 August 2012 and 31 March 2013.

All individuals who are in scope and currently engaged by OFT have provided assurance as to their tax and National Insurance obligations. There have been no off-payroll engagements at Board level or involving positions with significant financial responsibility.

8 Other Administration Costs

	2012-13		2011-12	
	£000	£000	£000	£000
Premises costs:				
Rent (operating lease)	3,983		3,894	
Rates	1,234		1,170	
Utilities	441		336	
Maintenance	370		2,244	
Other premises costs	414		440	
Recovery of costs from sub-tenants	(1,680)		(665)	
Net premises costs		**4,762**		**7,419**
Research expenditure		52		46
Other expenditure:				
Hire of plant and machinery (operating leases)	168		54	
Professional services	54		251	
Training	456		417	
Publicity and campaigns	42		36	
Travel and subsistence	51		27	
Recruitment	251		142	
Telecoms	381		391	
IT (including maintenance)	1,643		1,745	
Printing, copying and mailing	197		207	
Other expenditure	373		220	
Total other expenditure		**3,616**		**3,490**
Non-cash items:				
Depreciation – property, plant and equipment (note 11)	142		178	
Depreciation - Intangible assets (note 12)	7		9	
Released from the donated asset reserve	(6)		(6)	
Auditor's remuneration and expenses	80		81	
Total non-cash costs		**223**		**262**
		8,653		**11,217**

The auditor's remuneration and expenses reflects the notional fee for the NAO statutory audit, which comprises two elements: the accounts audit fee of £68,000 (2011-12: £69,000), which includes the audit of the Whole of Government Accounts return, and the audit fee for the audit of the Trust Statement (published as an annexe to this document) of £12,000 (2011-12: £12,000). The OFT did not purchase any non-audit services.

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

9 Programme Costs

	2012-13		2011-12 re-stated	
	£000	£000	£000	£000
Other expenditure:				
Litigation costs	4,985		10,255	
Professional services	831		1,187	
Publicity and campaigns	302		473	
Travel and subsistence	347		185	
IT (including maintenance)	809		738	
Publications	245		283	
Other expenditure	709		545	
Total other expenditure		**8,228**		**13,666**
Non-cash items:				
Depreciation – property, plant and equipment (note 11)	1,281		1,620	
Depreciation - Intangible assets (note 12)	64		79	
Released from the donated asset reserve	(51)		(51)	
Provisions – amounts provided for in year	44,540		5,482	
Provisions – amounts not required written back	-		(253)	
Total non-cash costs		**45,834**		**6,877**
		54,062		**20,543**

10 Income

10.1 Analysis of income

	2012-13	2011-12 re-stated
	£000	**£000**
Fees for the administration of the Consumer Credit Act 1974	13,366	11,502
Fees for the administration of Money Laundering Regulations 2007	1,033	1,071
Appeal costs reimbursed	126	67
Other income	21	1
Total income	**14,546**	**12,641**
Less: income payable to the Consolidated Fund	(3,013)	-
Total Appropriations-in-Aid	**11,533**	**12,641**
Of total income:		
Administration income	**4,486**	**5,401**
Programme income	**10,060**	**7,240**
	14,546	**12,641**

In addition to the income shown above, OFT collects fees on behalf of, and pays them over to, the Financial Ombudsman Service (FOS). The amount collected in 2012-13 was £1,676,020 (2011-12: £1,548,610). OFT is able to retain a small administration charge for each fee collected and this is included in other income in the table above. The amount retained in 2012-13 was £58,425 (2011-12: £53,500).

10.2 Fees and charges

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

2012-13

	Gross cost	Income shortfall	(Surplus)/ recovery	Actual recovery	Target
	£000	**£000**	**£000**	**%**	**%**
Consumer Credit Licensing	10,369	(13.366)	(2,997)	128.9	100.0
Anti-Money Laundering	1,108	(1,017)	91	91.8	95.0

The surplus Consumer Credit Licensing income is the result of higher than expected volumes. Under government accounting rules the surplus has to be surrendered to the Consolidated Fund.

The income for Anti-Money Laundering does not include £16k of fines for non-compliance which are payable to the Consolidated Fund.

2011-12

	Gross cost	Income shortfall	(Surplus)/ recovery	Actual recovery	Target
	£000	**£000**	**£000**	**%**	**%**
Consumer Credit Licensing	10,967	(11,502)	(535)	104.9	100.0
Anti-Money Laundering	1,181	(1,070)	111	90.6	95.0

11 Property, plant and equipment

Current year:

	Leasehold Improvements £000	Information Technology £000	Furniture and Fittings £000	Total £000
Cost or valuation:				
At 1 April 2012	281	11,335	606	12,222
Additions	133	201	9	343
Disposals	-	-	(490)	(490)
At 31 March 2013	414	11,536	125	12,075
Depreciation:				
At 1 April 2012	23	8,342	595	8,960
Charged in year	162	1,252	9	1,423
Disposals	-	-	(490)	(490)
At 31 March 2013	185	9,594	114	9,893
Carrying amount at 31 March 2013	**229**	**1,942**	**11**	**2,182**
Carrying amount at 31 March 2012	**258**	**2,993**	**11**	**3,262**

Prior year:

	Leasehold Improvements £000	Information Technology £000	Furniture and Fittings £000	Total £000
Cost or valuation:				
At 1 April 2011	3,215	13,613	617	17,445
Additions	281	309	-	590
Disposals	(3,215)	(2,587)	(11)	(5,813)
At 31 March 2012	281	11,335	606	12,222
Depreciation:				
At 1 April 2011	3,215	9,162	599	12,976
Charged in year	23	1,768	7	1,798
Disposals	(3,215)	(2,588)	(11)	(5,814)
At 31 March 2012	23	8,342	595	8,960
Carrying amount at 31 March 2012	**258**	**2,993**	**11**	**3,262**
Carrying amount at 31 March 2011	**-**	**4,451**	**18**	**4,469**

Asset financing

All assets are owned by OFT. The leasehold improvements relate to costs incurred in making alterations to Fleetbank House, which is occupied via an operating lease and which will be fully depreciated by 31 March 2014.

12 Intangible Assets

Current year:

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

Prior year:

	Software Licences £000
Cost or valuation:	
At 1 April 2011	994
Additions	-
Disposals	(503)
At 31 March 2012	491
Amortisation:	
At 1 April 2011	758
Charged in year	88
Disposals	(503)
At 31 March 2012	343
Carrying amount at 31 March 2012	**148**
Carrying amount at 31 March 2011	**236**

13 Financial Instruments

As the cash requirements of the OFT are met through the Estimate process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the OFT's expected purchase and usage requirements and the OFT is, therefore, exposed to little credit, liquidity or market risk.

14 Investments in other public sector bodies

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

15 Impairments

No impairments have been identified in 2012-13. A full review will be carried out during 2013-14.

16 Inventories

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

17 Trade receivables and other current assets

17.1 Analysis by type

	2012-13	2011-12
	£000	£000
Amounts falling due within one year:		
Trade receivables	342	231
Deposits and advances	162	175
Other receivables	12	1
VAT	246	992
Prepayments and accrued income	1,470	1,617
Total	**2,232**	**3,016**

17.2 Intra-Government balances

	Amounts falling due within one year 2012-13	2011-12
	£000	£000
Balances with other central government bodies	485	1,208
Balances with local authorities	-	25
Balances with public corporations and trading funds	-	-
Sub-total intra-government balances	**485**	**1,233**
Balances with bodies external to government	1,747	1,783
Total	**2,232**	**3,016**

18 Cash and cash equivalents

	2012-13	2011-12
	£000	**£000**
Balance at 1 April	3,609	(1,086)
Net change in cash balances	329	4,695
Balance at 31 March	**3,938**	**3,609**

The following balances at 31 March were held at:		
Government Banking Service	3,613	3,461
Cash in hand and locally banked receipts	325	148
Balance at 31 March	**3,938**	**3,609**

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

19 Trade payables and other current liabilities

19.1 Analysis by type

	2012-13	2011-12
	£000	**£000**
Amounts falling due within one year		
Taxation and social security	689	723
Trade payables	973	1,139
Other payables	1,873	1,970
Accruals and deferred income	1,815	8,629
Amounts issued from the Consolidated Fund for Supply but not spent at 31 March 2012	3,938	3,609
Other amounts due to the Consolidated Fund	3,013	-
Total	**12,301**	**16,070**

19.2 Intra-Government balances

	Amounts falling due within one year 2012-13	2011-12
	£000	**£000**
Balances with other central government bodies	8,711	4,490
Balances with local authorities	410	-
Balances with public corporations and trading funds	-	-
Sub-total intra-government balances	**9,121**	**4,490**
Balances with bodies external to government	3,180	11,580
Total	**12,301**	**16,070**

19.3 Deferred income

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

	2012-13	2011-12
	£000	**£000**
Fees for administration of the Consumer Credit Act 1974	483	264
Other income received in advance	34	-
Total deferred income	**517**	**264**

These amounts will be recognised as income in the following year when the corresponding work has been carried out

20 Provisions for liabilities and charges

	Early Departure Provision	Pension Provision	Onerous Lease Provision	Other Provision	Total
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2012	755	1,583	-	5,400	7,738
Provided in year	139	74	43,657	670	44,540
Actuarial loss	-	57	-	-	57
Provisions utilised in year	(310)	(95)	-	(5,400)	(5,805)
Balance at 31 March 2013	**584**	**1,619**	**43,657**	**670**	**46,530**

Analysis of expected timing of cash flows

	Early Departure Provision	Pension Provision	Onerous Lease Provision	Other Provision	Total
	£000	**£000**	**£000**	**£000**	**£000**
Not later than one year	213	95	-	670	978
Later than one year and not later than five years	348	381	43,657	-	44,386
Later than five years	23	1,143	-	-	1,166
Balance at 31 March 2013	**584**	**1,619**	**43,657**	**670**	**46,530**

20.1 Early Departure Provision

The OFT meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The OFT provides for this in full when the early retirement programme becomes binding, by establishing a provision for the estimated payments. There were no new early retirees during the year (2011-12: nil).

20.2 Pension Provision

The pension provision is unfunded, with benefits being paid as they fall due and guaranteed by OFT for the previous Chairman and Director Generals. There is no fund and therefore no surplus or deficit. An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2013.

The financial assumptions used in the calculation of the liability as at 31 March 2013 are as follows:

- The gross rate of increase in salaries is 3.95 per cent per annum (2011-12: 4.25 per cent per annum)
- The gross rate used to discount scheme liabilities is 4.10 per cent per annum (2011-12: 4.85 per cent per annum)
- The gross rate of increase for pensions in payment and deferred pensions is 1.70 per cent per annum, (2011-12: 2.00 per cent per annum)
- In nominal terms, these assumptions imply price inflation of 1.70 per cent per annum (2011-12: 2.00 per cent per annum)

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

	£000
- Overnight increase in liabilities (change in real return)	-
- Current service cost (net of employee contributions)	-
- Employee contributions	-
- Interest cost	74
- Past service cost	-
- Actuarial loss	57
	131
- Benefits paid	(95)
Increase in provision	36

20.3 Onerous Lease Provision

The OFT will vacate Fleetbank House at the end of March 2014. As there is the potential for the building to not be re-let and the lease runs until September 2023, we have recognised the lease as being onerous. The provision represents the discounted net cost (rent, rates and utilities) payable from 1 April 2014 until the current lease is determined in September 2023 (see note 1.14 for discount rates used). Net cost is the total after deducting rent, rates and utilities receipts from sub-tenants in so far as they are fixed. The Department for Business, Innovation and Skills (BIS) will take on responsibility for the lease with effect from 1 April 2014 and this liability will transfer to BIS.

20.4 Other provisions

A provision has been included for a potential penalty payable to HMRC for alleged under-charging of output VAT to other government departments where OFT staff members have been loaned to those departments. This is currently under discussion with HMRC. Provision has also been made for possible legal costs relating to past Competition Act 1998 cases.

21 Capital and other commitments

21.1 Capital commitments

	2012-13	2011-12
	£000	£000
Contracted capital commitments at 31 March 2013 not otherwise included in these financial statements:		
Property, plant and equipment	123	46

21.2 Commitments under operating leases

	2012-13		2011-12	
	Buildings	Other	Buildings	Other
	£000	£000	£000	£000
At 31 March 2013 obligations under operating leases for the following periods comprise:				
Not later than one year	4,054	6	3,965	29
Later than one year and not later than five years	17,149	17	16,771	93
Later than five years	26,202	-	30,633	-
Total	**47,405**	**23**	**51,369**	**122**

The commitment for buildings is the undiscounted gross cost of rent payable, before deduction of sub-tenant receipts and will, therefore, not match the figure included for an onerous lease (see note 20.3)

21.3 Finance leases

The OFT does not have any finance lease commitments.

21.4 Other financial commitments

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

22 Financial Guarantees, Indemnities and Letters of Comfort

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

23 Contingent liabilities disclosed under IAS 37

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

24 Losses and Special Payments

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

In 2012-13 there were no cases in excess of £250,000 (2011-12: nil).

24.1 Losses statement

There were no losses in 2012-13 (2011-12: £5,060).

24.2 Special payments

There were no special payments in 2012-13 (2011-12: nil).

25 Related-party transactions

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

26 Events after the reporting period

In accordance with the requirements of IAS 10 Events after the Reporting Period, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. The financial statements do not reflect events after this date.

11 TRUST STATEMENT

Statement of the Principal Accounting Officer's Responsibilities

Under section 7 (2) of the Government Resources and Accounts Act 2000, HM Treasury has directed the OFT to prepare for each financial year a Trust Statement in the form and on the basis set out in the Accounts Direction.

HM Treasury has appointed the Chief Executive as Accounting Officer of the OFT with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

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

The Trust Statement is prepared on an accruals basis and must give a true and fair view of the state of affairs of fees levied and penalties imposed by the OFT, together with the net amount surrendered to the Consolidated Fund.

In preparing the Trust Statement, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual prepared by the Treasury and, in particular, to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the account
- prepare the Trust Statement on a going concern basis

Governance Statement

The OFT's Governance Statement, covering both the Resource Accounts and the Trust Statement, is shown on pages 53 to 67.

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Office of Fair Trading's Trust Statement for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue, Other Income and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Office of Fair Trading Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Office of Fair Trading; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. 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 reported 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 the Office of Fair Trading's Trust Statement affairs as at 31 March 2013 and of its net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion, the information given in the Annual Report for the financial year in which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records or 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.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

19 June 2013

Statement of Revenue, Other Income and Expenditure for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
Income:			
Fines and penalties:			
Penalties imposed under the Competition Act 1998		64,733	59,777
Other income:			
Fees received under the Enterprise Act 2002		4,410	4,500
Total revenue for the year		**69,143**	**64,277**
Expenditure:			
Debts written off or otherwise impaired		(108)	2,570
Net revenue for the Consolidated Fund		**69,251**	**61,707**

There were no recognised gains or losses accounted for outside the above Statement of Revenue. All operations are continuing.

The notes following these main schedules form part of these accounts.

Statement of Financial Position as at 31 March 2013

	Note	31 March 2013 £000	31 March 2012 £000
Receivables falling due after more than one year	2.1	-	-
Current assets:			
Receivables	2.2	355	3,307
Accrued fees and penalties	2.2	370	631
Cash at bank and in hand	3	460	-
Total current assets		1,185	3,938
Current liabilities:			
Payables	4	-	-
Total current liabilities		-	-
Total assets less current liabilities		1,185	3,938
Represented by:			
Balance on Consolidated Fund Account	5	**1,185**	**3,938**

Clive Maxwell
Chief Executive and Accounting Officer

19 June 2013

The notes following these main schedules form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
Net cash flow from operating activities	A below	(72,464)	(72,899)
Amounts paid to the Consolidated Fund	5	72,004	75,380
Increase/(decrease) in cash in the period		**460**	**(2,481)**

Note to the Cash Flow Statement

A: Reconciliation of Net Cash flow to Movement in Net Funds

Net revenue for the Consolidated Fund	(69,251)	(61,707)
Decrease in non-cash assets	(3,213)	(11,342)
Decrease in current liabilities	-	150
Net cash flow from operating activities	**(72,464)**	**(72,899)**

B: Analysis of Changes in Net Funds

Increase/(decrease) in cash in the period	460	(2,481)
Net funds at 1 April (Net cash at bank)	-	2,481
Net funds at 31 March (Closing balance)	**460**	**-**

The notes following these main schedules form part of these accounts.

Notes to the Trust Statement

1 Statement of accounting policies

1.1 Basis of accounting

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

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

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

1.2 Accounting convention

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

1.3 Revenue recognition

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

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

For CA98 penalties, revenue is recognised when a penalty is validly imposed and an obligation to pay arises. When a penalty is imposed the entity concerned is given two calendar months in which to appeal the decision if it chooses. Where no appeal is lodged or when the period for appeal has expired, the full value of the penalty is recognised as a valid debt. Where an appeal is lodged recognition of the debt does not occur until the appeal process has been completed.

1.4 Impairment of receivables

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

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

1.5 Receivables

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

1.6 Value Added Tax (VAT)

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

2 Receivables

2.1 Non-current receivables

There are no amounts falling due after one year (2011-12: nil)

2.2 Current receivables

	2012-13	2011-12
	£000	£000
Amounts falling due within one year:		
Competition Act 1998 penalties	13,809	17,233
Less provision for impairment	(13,454)	(13,926)
Net Competition Act 1998 penalties	355	3,307
Accrued income – merger fees	370	631
Total	**725**	**3,938**

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

3 Cash at bank and in hand

	2012-13	2011-12
	£000	**£000**
Balance held at Government Banking Service at 1 April	-	2,481
Net change in cash balances	460	(2,481)
Balance held at Government Banking Service at 31 March	**460**	**-**

4 Current payables

There are no current payables (2011-12: nil).

5 Balance on the Consolidated Fund Account

		2012-13	2011-12
		£000	**£000**
Balance on Consolidated Fund Account as at 1 April	3,938	17,611	
Net revenue for the Consolidated Fund	69,251	61,707	
Less amount paid to the Consolidated Fund		(72,004)	(75,380)
Balance on Consolidated Fund Account as at 31 March		**1,185**	**3,938**

6 Losses statement

During the year outstanding CA98 debts totalling £363k were written-off as they were no longer collectable. No individual write-off exceeded £250k. There were no write-offs in 2011-12.

7 Events after the reporting period

In accordance with the requirements of IAS 10 Events after the Reporting Period, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General. The financial statements do not reflect events after this date.

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

1. This direction applies to those government departments listed in appendix 2.

2. The Department shall prepare a Trust Statement ("the Statement") for the financial year ended 31 March 2013 for the revenue and other income, as directed by the Treasury, collected by the department as an agent for others, in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual by HM Treasury ("FReM") which is in force for 2012-13.

3. The Statement shall be prepared, as prescribed in appendix 1, so as to give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties by the Department as agent and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from that revenue and other income; (b) the revenue and expenditure; and (c) the cash flows for the year then ended.

4. The statement shall also be prepared so as to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

5. When preparing the Statement, the Department shall comply with the guidance given in the FReM (Chapter 13). The Department shall also agree with HM Treasury the format of the Principal Accounting Officer's Foreword to the Statement, and the supporting notes, and the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in Managing Public Money and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards.

6. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.

7. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his examination and report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

8. The Trust Statement, together with this direction (but with the exception of the related appendices) and the Report produced by the Comptroller and Auditor General under Section 7(2) of the Government Resources and Accounts Act 2000 shall be laid before Parliament at the same time as the Department's Resource Accounts for the year unless the Treasury have agreed that the Trust Statement may be laid at a later date.

Karen Sanderson

Deputy Director, Government Financial Reporting

Her Majesty's Treasury

17 December 2012