

# Positive influence

Influencing business, consumers and Government  
to make markets work well for consumers



# Office of Fair Trading Annual Report and Resource Accounts 2009-10

This edition of the Office of Fair Trading's  
Annual Report and Resource Accounts  
covers the 12-month period from  
1 April 2009 to 31 March 2010.

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Resource Accounts presented to the House of Commons pursuant to section 6(4) of the  
Government Resources and Accounts Act 2000

Resource Accounts presented to the House of Lords by Command of Her Majesty

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# Chairman and Chief Executive's statement

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**Effective competition and well functioning markets drive the long-term productivity growth vital for economic recovery without adding costs to government or business. Competitive markets stimulate greater efficiency and innovation and deliver benefits to consumers through lower prices and more responsive supply of goods and services.**

This year the OFT has focused its work on making markets work well in the interests of both consumers and the wider economy. Our joint competition and consumer remit has allowed us to look at individual markets in the round and to use the most efficient instruments to tackle problems.

Our market studies allow us to look broadly at entire markets to see whether they are working well for consumers. This year we published reports on home buying and selling and second-hand cars among others, which have allowed us to make practical recommendations that will result in real benefits for consumers and the economy.

We also launched new market studies into online markets, advertising and pricing and consumer contracts to help us understand market developments and their impact on consumers.

Following a Competition Act investigation, we imposed penalties of £129.2 million on 103 construction firms that had colluded with their competitors on building contracts. Penalties totalling £39.3 million were imposed on six recruitment agencies for taking part in a cartel in the supply of candidates to the construction industry. One financial services firm agreed to pay a penalty of £28.6 million after admitting that individuals in the company had disclosed confidential future pricing information to a competitor.

Successful enforcement action has been taken against unfair business practices. We secured a High Court order to prevent an estate agency using certain unfair terms in its agreements with consumer landlords. Changes to the terms and conditions of businesses in both the airline and ticketing sectors have also been secured.



**Philip Collins**  
Chairman

**John Fingleton**  
Chief Executive

## **Influence and engagement**

To complement our enforcement actions, we have worked with business to encourage compliance and promote good practice.

Through our Consumer Codes Approval Scheme we have now approved a total of nine codes operating in markets such as estate agency, car repair and direct selling. We have also published a statement on our broader approach to self-regulation.

During the year, we conducted parallel research projects looking at what factors drive businesses to comply with competition and consumer legislation, and how companies go about doing this. We set up a competition compliance working group with representatives from business organisations to help us improve the way we communicate with business about compliance.

Although the Supreme Court ruled against our position in the test case on unauthorised bank charges, we have secured real improvements for consumers, brought about in part through working with the banks. These improvements, alongside further changes expected, led the OFT not to recommend legislation. We will keep a watch on the market over the next few years, working closely with the Independent Banking Commission, and we will report back in 2012.

We have helped consumers engage better with business through our education and campaigns activities, including producing a Scottish version of the 'Skilled to Go' educational materials. Consumer Direct, by increasing the quality

and availability of consumer information, has continued to build consumer trust in markets and give people the tools and confidence to resolve problems by themselves. It also supports Trading Standards Services in the excellent work they do for consumers locally. The costs of running Consumer Direct are now around 31 per cent lower than when the OFT took responsibility for the service in 2006. We now achieve a benefit-to-cost ratio of over 10 to 1.

As part of our ongoing advocacy work, we published a paper on 'Government in Markets' to help policy makers be mindful of the possible impact of intervention on competitive markets. We will continue our work in this area, including looking at the role of markets and competition in the provision of public services.

Our leading role internationally on competition and market issues continues, not least through the OFT's chairmanship of the International Competition Network.

## **Breaking new ground**

In 2009-10 we achieved several 'firsts'.

We brought charges for the first time using our criminal powers under the Consumer Protection from Unfair Trading Regulations 2008, in relation to a suspected unlawful pyramid scheme.

Following revisions to the Consumer Credit Act 1974 in 2008, we used new powers for the first time to impose 'requirements' on companies to improve their business practices where they failed to meet satisfactory standards.

As part of the Government's Digital Britain project, we set up an internet enforcement team and made improvements to the Consumer Direct website to make it easier for consumers to raise concerns.

Businesses considering a merger rightly expect to be dealing with a joined-up competition regime. We worked with the Competition Commission to minimise unnecessary costs for business by producing for the first time a single set of guidelines on how the competitive impact of mergers will be assessed.

## **Improving the way we work**

We have continued to look at how to improve the transparency of our activities and expect to publish a statement of our future intentions shortly. Work in this area will continue in 2010-11.

We have also looked internally at our structures to ensure that we take cases that will best help us in our mission of making markets work well for consumers and that we can deal with them efficiently and effectively. A new Consumer Markets Group has been created and a small team put in place whose job will be to try out new, streamlined ways of tackling projects.

Two new non-executive directors were welcomed to the OFT Board: William Moyes, most recently Executive Chairman of the Independent Regulator of NHS Foundation Trusts, and Alan Cook, who has just retired as Managing Director of the Post Office. They will bring with them diverse experience in both the private and public sectors which will benefit our Board



discussions. Lord Blackwell stepped down from the Board this year. He served with dedication and professionalism. We thank him for his excellent contribution and wish him every success for the future.

We are committed to doing more for less and improving our value for money. Recent evaluation of our work has shown that we make good use of our resources in securing high impact outcomes. Our most recent estimates show that our work has delivered direct financial benefits to consumers of around £359 million.

Our work examining competition and consumer aspects of markets that are not working well continues to deliver benefits to consumers, including lower prices and greater choice, and to stimulate greater efficiency and innovation to the benefit of the economy as a whole. At the same time, tailored interventions and targeted enforcement have allowed us to reduce unnecessary costs and burdens on business.

This year the new UK competition regime celebrated its tenth anniversary. This has given us an excellent opportunity to look back at the achievements of the regime, the areas that have not worked as well, and what we could do better in the future. It is also an opportunity, particularly apt at a time when difficult questions are being asked about public finances, to ask whether the competition and consumer regimes are working as well as they could in delivering effective outcomes to consumers as efficiently as possible, at reasonable cost to the public purse, and in a timely manner.



**Philip Collins**  
Chairman

**John Fingleton**  
Chief Executive

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**Our work examining competition and consumer aspects of markets that are not working well continues to deliver benefits to consumers, including lower prices and greater choice, and to stimulate greater efficiency and innovation to the benefit of the economy as a whole.**

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# About the OFT

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The OFT is a non-ministerial government department. Our mission is to make markets work well for consumers.

We play a leading role in the promotion and protection of consumer interests throughout the UK, while ensuring that businesses operate in a fair and competitive way. Good consumer outcomes rely on competitive markets to provide choice and value, while vibrant competition relies on consumers confidently shopping around. When markets work well, businesses thrive by providing what consumers want, better and more cost-effectively than their competitors. As such, effective competition provides significant benefits for consumers through greater choice, lower prices and better-quality goods and services. Competition also provides strong incentives for firms to be more efficient and innovative, helping raise productivity across the economy.

Competition and consumer policy together provide a framework for markets to deliver maximum benefits for consumer welfare and productivity and, by raising economic growth, to increase total welfare.

## Our approach

The fundamental strength of the UK's market regime is the integration of competition and consumer tools. Our dual competition and consumer remit allows us to take a holistic approach to our work and the wide range of remedies at our disposal allows us to act in a flexible and proportionate manner.

The majority of our work consists of:

- Analysing markets.
- Enforcing consumer and competition law.
- Merger control.
- Licensing and supervisory work in the consumer credit and estate agency markets, including anti-money laundering supervision.
- Advocacy.
- Working with partners to deliver information and education programmes to businesses and consumers.

- Delivering advice to consumers through Consumer Direct.

The tools we have at our disposal are considered in detail below. In many cases, we use a combination of tools to address market failures in a holistic way.

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 be most appropriate to ensure that we obtain proportionate and effective outcomes. We also recognise the importance of being transparent in the work we do.

In many cases, we work in partnership with other organisations that have complementary powers or influence in relation to markets. We work on the principle that where powers are shared between separate authorities, action should always be taken by the most appropriate body.

## Our tools

### Enforcement interventions, including:

- Taking criminal action against those involved in serious unfair commercial practices or engaging dishonestly in cartel activity.

- Applying for Competition Disqualification Orders against directors of companies that have infringed competition law.
- Imposing financial penalties and directions on companies under competition law for involvement in anti-competitive agreements and the abuse of a dominant position.
- Refusing and revoking consumer credit licences, and imposing requirements on licensees.
- Warning and banning estate agents.
- Applying for civil court orders restraining businesses from future breaches of consumer legislation.
- Imposing financial penalties and prosecuting certain classes of business for non-compliance with legislation relating to illegal money laundering.

### Market tools and analysis, including:

- Actively studying markets that may not be working well for consumers and responding to super-complaints from designated bodies.

- Referring a market to the Competition Commission for investigation where we have reasonable grounds for suspecting that any feature, or combination of features, of the market is preventing, restricting or distorting competition in the UK.
- Monitoring, enforcing and reviewing orders and undertakings put in place in the context of a market investigation reference.

### Advocacy, advice and education, including:

- Raising awareness of competition issues and advising policy makers where wider government policies affect competition and markets.
- Informing consumers through education and awareness campaigns, and through our Consumer Direct advice service.
- Carrying out business education and encouraging business compliance.
- UK and international policy work, using our influence to promote the economic interests of UK consumers.

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**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 be most appropriate to ensure that we obtain proportionate and effective outcomes.**

In addition, our **statutory remit** includes obligations on us to:

- Review information relating to merger situations and, where necessary, refer any relevant mergers to the Competition Commission for further investigation.
- Monitor the fitness of businesses holding or applying for a licence to offer goods or services on credit or lend money.
- Act as a supervisory authority under the Money Laundering Regulations 2007.
- Report on whether the regulatory provisions of clearing houses and investment exchanges seeking recognition have a significantly adverse effect on competition.

## Prioritisation

Where we have 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<sup>1</sup> describe the factors we consider and balance when we make decisions on our priorities. The principles are:

- **Impact:** What would be the likely direct and indirect effect on consumer welfare, and what would be the expected additional economic impact on efficiency/productivity?

- **Strategic significance:** Does the work fit with the OFT's strategy and objectives, is the OFT best placed to act and what would be the impact of the new work on the balance of the OFT's current portfolio of work?
- **Risks:** What is the likelihood of a successful outcome?
- **Resources:** What are the resource implications of doing the work, are the resource requirements proportionate to the benefits and will any savings be created for the OFT by enabling us to meet our objectives more efficiently?

Prioritisation decisions are made on a case-by-case basis, taking account of individual circumstances and the likely outcomes of alternative courses of action.

## Accountability

The OFT is a corporate body established by the Enterprise Act 2002. The decisions we make – in terms of case selection and case determination – are made independently of government and without regard to political considerations. This reflects the Government's vision, set out in the White Paper 'A World Class Competition Regime', of strong, proactive and independent competition authorities.

The OFT is accountable for the delivery of its objectives to Parliament via the presentation of our annual report pursuant to section 4 of the Enterprise Act 2002. 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.

Ultimately the OFT is accountable to the public through Parliamentary scrutiny both in Westminster and the devolved administrations, for example through investigations by select committees. We are also specifically 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 and decisions on Competition Commission references of mergers or markets, are subject to appeal to the specialist Competition Appeal Tribunal, an independent body established under the Enterprise Act. Our licensing decisions under the Consumer Credit Act 1974 are subject to appeal heard by an independent tribunal. Where we enforce consumer protection law through the courts, our actions can be appealed there.

<sup>1</sup> OFT Prioritisation Principles (OFT953), October 2008, [www.of.gov.uk/shared\\_of/about\\_of/oft953.pdf](http://www.of.gov.uk/shared_of/about_of/oft953.pdf)

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**We strive to improve our performance in a timely, cost-effective and efficient manner to improve outcomes for consumers and the UK economy.**

The OFT is accountable more generally through the public having the right to seek judicial review of administrative action and to complain to the Ombudsman (the Parliamentary Commissioner for Administration).

### **Risk management**

Managing risks well is crucial to improving our effectiveness in delivering outcomes for consumers. Not only does it help prevent or mitigate harm to the organisation, it also helps us to maximise our impact on markets by intervening in a targeted way. Our approach to risk management is based on assessing risks that might adversely affect our mission of making markets work well for consumers, and acting on opportunities to advance that mission.

The OFT Board keeps under review key corporate risks, identifying opportunities and assessing the adequacy of risk-management controls. The Board also ensures

that responsibility for risk management is appropriately handled throughout the OFT, with managers and individual members of staff taking responsibility for managing specific risks that could affect the achievement of their objectives and targets, and for identifying opportunities that would help achieve those objectives and targets.

### **Review of performance and value for money**

We strive to improve our performance in a timely, cost-effective and efficient manner to improve outcomes for consumers and the UK economy.

In March 2009, the National Audit Office found that we had improved our operations and value for money following recommendations on maintaining competition in markets made by the National Audit Office and Committee of Public Accounts in 2005 and 2006.

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# The Board

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**Philip Collins**  
Chairman



**John Fingleton**  
Chief Executive



**Vivienne Dews**  
Executive Director



**Jonathan May**  
Executive Director



**Norman Blackwell**  
Non-executive Director  
(until 31 March 2010)



**Alan Cook**  
Non-executive Director  
(from 1 April 2010)



**Alan Giles**  
Non-executive Director



**James Hart**  
Non-executive Director



**Frédéric Jenny**  
Non-executive Director



**Anthony Lea**  
Non-executive Director



**Philip Marsden**  
Non-executive Director



**William Moyes**  
Non-executive Director  
(from 1 April 2010)

# Senior Executive Team



**Frances Barr**  
General Counsel



**Sonya Branch**  
Senior Director  
(on maternity leave)



**Colin Brown**  
Director of  
Consumer Policy



**Heather Clayton**  
Senior Director of  
Infrastructure and  
Consumer Markets Group



**Cavendish Elithorn**  
Senior Director of Policy



**Carmel Flatley**  
Director of Human  
Resources



**Amelia Fletcher**  
Chief Economist and  
Senior Director of Mergers



**David Leech**  
Director of Organisational  
Development



**Clive Maxwell**  
Senior Director of Services



**Ali Nikpay**  
Senior Director of Cartels  
and Criminal Enforcement



**Ray Watson**  
Director of  
Consumer Credit



**Simon Williams**  
Senior Director of Goods



**Erik Wilson**  
Director of  
Executive Office



**Barney Wyld**  
Director of  
Communications

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# The Board

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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.

## **Philip Collins**

### **Chairman**

Philip Collins became Chairman of the OFT in 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 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.

## **John Fingleton**

### **Chief Executive**

John Fingleton became Chief Executive of the OFT in October 2005. John studied economics at Trinity College, Dublin, and Nuffield College, Oxford. He taught economics at Trinity College, Dublin for almost a decade, and spent shorter periods at the London School of Economics, the Graduate School of Business at the University of Chicago, and the Université Libre de Bruxelles.

His academic research focused on industrial organisation, regulation and competition policy.

As Chairperson of the Irish Competition Authority from 2000 to 2005, John oversaw the introduction of new legislation, initiated criminal and civil enforcement, set up a new mergers regime and engaged in widespread competition advocacy, especially in the areas of transport, the professions and financial services. He played an active role in international competition policy and in domestic economic policy, particularly relating to competitiveness.

## **Vivienne Dews**

### **Executive Director**

Vivienne Dews became Executive Director of the OFT's new Corporate Services function in April 2008. 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 in 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. She leads delivery of OFT services to consumers and businesses including Consumer Direct, credit licensing, anti-money laundering supervision and the OFT's enquiries department. In addition, she is responsible for the OFT's in-house services such as human resources, finance and procurement, facilities management and IT.



**Jonathan May****Executive Director**

Jonathan May became Executive Director of Policy and Strategy in October 2006, and took on an additional role as Executive Director of Markets and Projects in June 2008. He joined the OFT at the end of 2001 following two and a half years as Director of UK Competition Policy at the Department of Trade and Industry, where he was responsible for developing strategy on competition policy. Before that, he worked at HM Treasury, initially with public expenditure responsibility for the Home Office and overseas aid policies, and later handling competition, utility regulation and energy issues. He is responsible for the teams that handle the investigation aspects of the OFT's work and cover enforcement and diagnostic work, as well as for drawing up the OFT's strategies and policies and ensuring they are implemented consistently across the organisation.

**Norman Blackwell****Non-executive Director**

Norman Blackwell (Lord Blackwell) was appointed for a five-year term from 1 April 2003 and then reappointed for a further two years from 1 April 2008. His appointment finished on 31 March 2010. He is non-executive Chairman of Interserve plc and Senior Independent Director of Standard Life plc and SEGRO plc. He is also a Board member of the Centre for Policy Studies. From 1995 to 1997 he was Head of the Prime Minister's Policy Unit in 10 Downing Street, following which he was Director of Group Development, NatWest Group, from 1997 to 2000.

**Alan Cook****Non-executive Director**

Alan Cook was appointed for a four-year term from 1 April 2010. He has had many years of experience in financial services and has worked extensively in both the private and public sectors. He is currently Chairman of 'Action for ME', the UK's leading charity supporting sufferers of ME/chronic fatigue syndrome, and is also a non-executive director of the Department for Transport and the Financial Ombudsman Service. He was formerly Managing Director of the Post Office and, prior to that, Chief Executive Officer of National Savings & Investments and Chief Operating Officer of Prudential. He is a Chartered Insurer, a Fellow of the Royal Society of Arts, a Fellow of the Chartered Institute of Management and a Freeman of the City of London. He was awarded a CBE in 2006.

**Alan Giles****Non-executive Director**

Alan Giles was appointed for a four-year term from 1 April 2007. He has many years of experience in retail businesses. He is currently Chairman of Fat Face Limited and a non-executive director of Rentokil Initial plc and Wilson Bowden plc. He was formerly Chief Executive Officer of HMV Group plc, Managing Director of Waterstone's Booksellers Ltd and Executive Director of WH Smith Group plc.

**James Hart****Non-executive Director**

James Hart was appointed for a three-year term from 1 April 2008. He has spent most of his career in the police service, starting in the Surrey and Metropolitan forces and rising to become Head of the Diplomatic Protection Group, and latterly Commissioner of City of London Police. He now holds a small number of non-executive appointments and advisory positions.

**Frédéric Jenny****Non-executive Director**

Professor Frédéric Jenny was appointed for a five-year term from 1 April 2007. He is a Professor of Economics at ESSEC Business School in Paris. He is currently Conseiller en Service Extraordinaire, Cour de Cassation (Member of the French Supreme Court) and Chairman of the OECD Competition Law and Policy Committee. He was closely involved in the establishment of what is now the Conseil de la Concurrence (Competition Council) in France and latterly became its Vice-President, and is internationally recognised for his work in the competition field.

**Anthony Lea****Non-executive Director**

Anthony Lea was appointed for a four-year term from 1 April 2008. He is currently Chairman of the World Mining Trust plc and a non-executive director of the British Standards Group. He is also Chairman of the Emerging Africa Infrastructure Fund and a trustee of the RAF Benevolent Fund. 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 and Englehard Corporation and Terra Industries.

**Philip Marsden****Non-executive Director**

Dr Philip Marsden was appointed for a four-and-a-half-year term from 1 October 2008. 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.

**William Moyes****Non-executive Director**

Dr William Moyes was appointed for a three-year term from 1 April 2010. He is currently a lay member of the Legal Services Board and trustee of the Nuffield Trust. He was also 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). 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 Director of the British Linen Bank (1996) and Head of the Infrastructure Investments Department at the Bank of Scotland (1998 to 2000). 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.

Our organisation chart can be found at: [www.offt.gov.uk/structure](http://www.offt.gov.uk/structure)

# Themes for the year

In our annual plan for 2009-10, we set out four key themes: maintaining our record of high-impact enforcement and interventions, responding flexibly to changing circumstances and events, influencing the debate around competition and consumer issues and working with partners.

## Maintaining our record of high-impact enforcement and interventions

We demonstrated our commitment to taking strong enforcement action where businesses break the law. In one of the largest and most complex competition investigations ever undertaken by a national agency, we fined 103 construction firms £129.2 million for colluding on building contracts. We also imposed fines totalling £39.3 million on six recruitment agencies for engaging in anti-competitive practices.

We took enforcement action against unfair business practices in the debt-management sector, brought criminal charges in a suspected unlawful pyramid scheme, secured undertakings from retirement home providers on the use of 'exit fees' and successfully took legal action against estate agency contract terms. We published our findings in relation to four separate market studies.

We estimate that the direct consumer savings delivered by our work over the three-year period 2007-10 averaged £359 million annually.

## Responding flexibly to changing circumstances and events

Responding to the challenges posed by the recession and credit crunch has been a key factor in our recent work.

We focused our consumer credit work on businesses involved in high-risk credit activities, such as debt collection and debt management. We took action to protect vulnerable consumers from unsubstantiated claims by a number of sale and rent-back firms. We demonstrated that the merger regime could adapt to the economic circumstances by applying 'failing firm' analysis to takeovers of troubled firms. We completed a 'quick-look' market study to examine how well Isle of Wight ferry services work for consumers.

## Influencing the debate around competition and consumer issues

The year saw notable successes in our advocacy and partnership work.

'Government in Markets', our guide for policy makers on why competition matters and how they can limit the possible negative impacts of intervention on competitive markets, was well received by policy makers and the business community alike.

We also worked closely with the Government on proposals to strengthen consumer protection, including through the Consumer White Paper.

We launched a programme of events aimed at engaging influential members of the business, government and consumer communities to help improve our common understanding of the relationships between consumers, firms and markets.

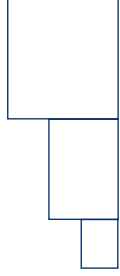
## Working with partners

We worked with industry to drive compliance and with consumer groups and local authority Trading Standards Services to focus enforcement activity.

We engaged with a wide range of partners to deliver hard-hitting, effective consumer education and awareness campaigns such as the Scamnesty campaign.

# Distribution of key sector-specific OFT interventions in 2009-10 across the economy

Mergers cases and consumer education campaigns are not included.



Size of rectangles reflects approximate value of each market sector to the UK economy (based on Office for National Statistics figures for gross value added at current prices, 2007).

<p><b>Transport, storage and communication</b></p> <ul style="list-style-type: none"> <li>Local bus services</li> <li>Isle of Wight ferries</li> <li>Newspaper and magazine distribution</li> <li>Airline surcharges</li> <li>Airline pricing strategies</li> </ul>	<p><b>Arts, entertainment, hotels and restaurants, recreation, other service activities</b></p> <ul style="list-style-type: none"> <li>ITV Contract Rights Renewal</li> <li>Ticketing terms and conditions</li> <li>Misleading prize promotions</li> <li>Gym memberships</li> </ul>	<p><b>Agriculture, forestry, fishing, mining and quarrying</b></p>	<p><b>Electricity, gas and water*</b></p>
<p><b>Construction</b></p> <ul style="list-style-type: none"> <li>Construction cartel</li> </ul>	<p><b>Finance</b></p> <ul style="list-style-type: none"> <li>Personal current accounts</li> <li>Anti-money laundering supervision</li> <li>Consumer credit</li> <li>Corporate insolvency</li> </ul>	<p><b>Manufacturing</b></p> <ul style="list-style-type: none"> <li>Reckitt Benckiser (Gaviscon)</li> <li>Dairy product retail pricing</li> <li>Tobacco retail pricing</li> </ul>	
<p><b>Wholesale and retail trade</b></p> <ul style="list-style-type: none"> <li>Dairy product retail pricing</li> <li>Tobacco retail pricing</li> <li>Supply of beer in pubs</li> </ul>	<p><b>Health and social work</b></p> <ul style="list-style-type: none"> <li>British Healthcare Trades Association Approved Code</li> </ul>		
<p><b>Letting of dwellings</b></p> <ul style="list-style-type: none"> <li>Foxtons contract terms</li> </ul>	<p><b>Public administration and defence</b></p> <ul style="list-style-type: none"> <li>Government in markets</li> <li>Choice in public services</li> </ul>		
<p><b>Other real estate activities, renting of machinery and goods, business activities</b></p> <ul style="list-style-type: none"> <li>Home buying and selling</li> <li>Sale and rentback advertising</li> <li>Estate agency regulation</li> </ul>	<p><b>Education</b></p> <ul style="list-style-type: none"> <li>Retirement home exit fees</li> <li>Construction recruitment</li> <li>Pyramid schemes</li> </ul>		

\* Electricity and gas markets are regulated by Ofgem. The water and sewerage sectors are regulated by Ofwat.

# Enforcement

We took decisive action with our enforcement partners against anti-competitive behaviour and the activities of rogue traders, focusing our interventions on areas of high consumer detriment. During the year, we imposed penalties for bid rigging in the construction industry and a major bank agreed to pay a penalty for unlawfully disclosing pricing information on loan products. We also acted to clamp down on unfair contract terms and to secure fairer treatment of consumers by credit providers.

## Acting against anti-competitive agreements

### Bid rigging in the construction industry

Following our largest-ever investigation under the Competition Act, we imposed fines totalling £129.2 million on 103 construction firms in England that had colluded with their competitors on building contracts. We concluded that the firms had engaged in illegal bid-rigging activities on 199 tenders from 2000 to 2006, mostly in the form of 'cover pricing'.

Cover pricing involves one or more bidders colluding with a competitor during a tender process to obtain a price that is too high to win the contract but which is then submitted as if it were a genuinely

competitive bid. This misleads clients as to the real extent of competition and makes it less likely that other, potentially cheaper, firms are invited to tender.

We also found six instances where successful bidders had paid an agreed sum of money to the unsuccessful bidder (known as a 'compensation payment'). These payments of between £2,500 and £60,000 were facilitated by the raising of false invoices.

The infringements affected building projects across England worth in excess of £200m, including schools, hospitals and private housing developments. Of the 103 firms fined, 25 have now appealed the OFT's decision to the Competition Appeal Tribunal.

### Construction recruitment cartel

We imposed fines totalling £39.3 million on six recruitment agencies for taking part in a cartel in the supply of candidates to the construction industry. We found that the companies had engaged in a collective boycott of a rival firm, Parc UK (Parc), and also colluded to fix their prices.

Parc entered the market in 2003 as an intermediary in the supply of candidates, putting pressure on the margins of recruitment agencies. Instead of competing with Parc – and each other – on price and quality, the six parties formed a cartel referred to as the Construction Recruitment Forum, which met five times between 2004 and 2006. Forum members agreed to boycott Parc and cooperated to fix the fee rates they would charge to intermediaries and certain construction companies.

Two of the parties were granted immunity in return for exposing the cartel. The remaining parties applied

**109 parties were subject to OFT infringement decisions under the Competition Act during 2009-10.**

for and were granted leniency, apart from one party that had entered into liquidation. The total level of fines before reductions for leniency was £173m.

Three of the parties have appealed our decision to the Competition Appeal Tribunal.

### Disclosure of pricing information for loan products to professional services firms

The Royal Bank of Scotland (RBS) agreed to pay a penalty of £28.6 million after admitting that individuals in its Professional Practices Coverage team had unilaterally disclosed confidential future pricing information to a competitor, Barclays Bank.

Our investigation found that team members had passed information to their counterparts at Barclays concerning the pricing of loan products for large professional services firms (such as solicitors and accountants), and that this information was taken into account by Barclays in determining its own pricing. The disclosures took place in the course of a number of contacts on the fringes of social, client or industry events and through telephone conversations.

Barclays brought the matter to our attention under our leniency policy. Provided it continues to cooperate, it is not expected to pay a fine in this case. The fine for RBS was reduced from £33.6 million to reflect the bank's admission and its agreement to cooperate.

### Alleged unlawful practices relating to tobacco retail pricing

We continued our investigation into the alleged engagement by certain tobacco manufacturers and retailers in unlawful practices relating to retail prices for tobacco products in the UK.

## The Royal Bank of Scotland agreed to pay a penalty of £28.6 million after admitting that individuals in its Professional Practices Coverage team had unilaterally disclosed confidential future pricing information to a competitor, Barclays Bank.

In July 2008, we announced that we had reached early resolution agreements with six parties, who had admitted engaging in unlawful practices and had agreed to pay individual penalties that came to a combined maximum of £173.3 million before discounts.

During 2009-10, we reviewed the representations made by the parties contesting the case, as well as information submitted by parties who concluded early resolution agreements with us.

In April 2010, after the end of the reporting period, we announced our decision, which found that two tobacco manufacturers and 10 retailers had engaged in unlawful practices in relation to retail prices for tobacco products in the UK, in breach of the Chapter I prohibition of the Competition Act. We imposed fines on these parties totalling £225m.

### Alleged collusion on dairy prices

As part of our ongoing investigation into alleged collusion over the retail prices of dairy products, we issued a supplementary statement of objections in July 2009.

This set out further evidence to support our allegation that 10 parties had colluded to increase the retail prices of certain dairy products in 2002 and or 2003 in breach of the Competition Act. We had already entered into early resolution agreements with seven

of these parties in which they admitted their involvement and agreed to pay penalties. One further party had applied for leniency.

In April 2010, after the end of the reporting period, in light of detailed representations and new evidence received, we concluded that the evidence we had on file was insufficient to support an infringement finding with regard to liquid milk in 2002 and value butter in 2003. As a result, the individual penalties that a number of early resolution parties had agreed to pay will be reduced. In addition, as the only allegation against Morrisons related to liquid milk in 2002, Morrisons is now no longer a party to the investigation.

We also made a change to the scope of the 2003 liquid milk allegation and dropped our investigation into one of the parties. This party notified us that it did not intend to contest the remaining allegations against it with regard to cheese in 2002 and 2003. In recognition of this, we agreed a discretionary discount of 10 per cent on any penalty that we may impose.

### Pricing strategies regarding airline passenger fares

We investigated whether Cathay Pacific Airways and Virgin Atlantic infringed competition law in relation to passenger services on the London to Hong Kong route.

The case concerns alleged contacts between employees of the two airlines over a number of years. The matter was brought to our attention by Cathay Pacific under our leniency policy. Provided it continues to cooperate, Cathay will be immune from any penalty imposed in this case.

In April 2010, after the end of the reporting period, we issued a statement of objections alleging that the two airlines had infringed competition law. The parties have a full opportunity to respond to our proposed findings before we will decide whether competition law has in fact been infringed.

### **Alleged price fixing of fuel surcharges**

We pursued criminal proceedings against four men charged with cartel offences relating to the alleged price fixing of fuel surcharges for long-haul passenger flights by British Airways and Virgin Atlantic Airways. The prosecutions were commenced in August 2008 following an OFT criminal investigation, the OFT having concluded in accordance with the applicable code that the case was merited both on an assessment of the evidence and because there was a reasonable prospect of conviction.

During the reporting period, we successfully defended applications on preliminary legal issues. These established important jurisdictional and other precedents, confirming the Crown Court's jurisdiction to try the cartel offence and clarifying whose dishonesty is relevant in cartel cases.

The prosecution was withdrawn in May 2010, after the end of the reporting period, following the discovery of a substantial volume of electronic material, which neither the OFT nor the defendants had

previously been able to review. Given that the trial had already begun and the volume of material involved and in light of the Judge's rulings about disclosure and the timing of witness hearings, we accepted that to continue the trial in light of this development would potentially have been unfair and the four defendants were acquitted.

### **Investigation into the automotive sector**

We began an ongoing criminal investigation into suspected cartel activity in the automotive sector. The investigation is being carried out under the Enterprise Act which makes it a criminal offence for individuals dishonestly to engage in certain cartel conduct.

Our investigation is at an early stage. We will not be in a position to conclude whether we consider the law has been infringed until we have completed our investigation and assessed the available evidence. Our investigation is being coordinated with investigations by a number of other competition authorities.

### **Investigation into certain retailers and suppliers**

We continued an ongoing investigation into suspected breaches of competition law by a number of retailers and suppliers, across a range of product areas.

We will not be in a position to conclude whether we consider the law has been infringed until we have completed our investigation and assessed the available evidence.

### **Investigation into the sports goods retail sector**

We began an ongoing investigation into alleged anti-competitive conduct in the sports goods retail

sector. The investigation is being carried out under the Competition Act and relates to alleged breaches of EU and UK competition law.

Our investigation is at an early stage. We will not be in a position to conclude whether the law has been infringed until we have completed our investigation and assessed the available evidence.

## **Identifying abuse of market dominance**

### **Alleged attempt to restrict competition in heartburn medicines**

We issued a statement of objections in February 2010 alleging that Reckitt Benckiser had abused its dominant position in the market for the NHS supply of alginate and antacid heartburn medicines. We alleged that the company had sought to restrict competition to its Gaviscon brand by withdrawing and de-listing its NHS packs of Gaviscon Original Liquid from the NHS prescription channel.

Reckitt Benckiser has a full opportunity to respond to our proposed findings before we decide whether competition law has been infringed.

Further details of competition cases undertaken during 2009-10 can be found in Annexe C at: [www.of.gov.uk/annualreport](http://www.of.gov.uk/annualreport)

## **Assessing effect on competition**

### **Clearing house and investment exchange recognition**

Under section 303 of the Financial Services and Markets Act 2000 (FSMA), the OFT is required to report to the Financial Services

Authority (FSA), the Competition Commission and HM Treasury on whether the rules that will be applied by a clearing house or investment exchange in the UK, assuming it is granted recognition by the FSA, will have a significantly adverse effect on competition.

During the year, we completed reviews of an application by Cassa di Compensazione e Garanzia SPA to become a recognised overseas clearing house and an application by NYSE Liffe to become a recognised overseas investment exchange. As part of this work, we conducted a consultation of market participants, including potential competitors and customers.

After considering the consultation responses and the applications themselves, we concluded that recognition in both cases would not have a significantly adverse effect on competition within the meaning of FSMA. Following the publication of our reports, the FSA granted recognition to both bodies.

## Reviewing mergers

The OFT obtains and reviews information relating to mergers and has a duty to refer any relevant merger situation to the Competition Commission for further investigation where it believes the creation of that merger situation has resulted or may be expected to result in a

substantial lessening of competition within any market for goods or services in the UK.

We referred seven merger cases to the Competition Commission in 2009-10. Our reference test was met in a further eight cases. Of these, we accepted undertakings in lieu of a reference to the Competition Commission in one case during the year, and cleared seven cases on the basis that the relevant markets were not of sufficient importance to justify a reference (the 'de minimis' exception). We also formally accepted undertakings in lieu of a reference in three cases from 2008-09.

Detailed statistics on our merger work in 2009-10 can be found in Annexe D at: [www.offt.gov.uk/annualreport](http://www.offt.gov.uk/annualreport)

### The Co-operative Group – Somerfield

In the previous reporting period, The Co-operative Group gave undertakings to the OFT to remedy competition concerns raised by its acquisition of around 880 Somerfield grocery retail stores. After accepting the undertakings, this year we oversaw the divestment by The Co-operative Group of stores in all affected local areas. Through this divestment process, more than 100 former Co-operative Group or Somerfield stores were sold to

15 different purchasers, including a significant new entrant to the grocery retailing sector.

### Orange – T-Mobile

As well as reviewing mergers under the Enterprise Act, the OFT plays an active role in cases notified to the European Commission that have a potential impact on UK consumers. In early 2010, we worked closely with the Commission and the sector regulator Ofcom to review the proposed merger of the UK subsidiaries of Orange and T-Mobile. Although we originally asked that the Commission refer the UK aspects of the merger back to us (under Article 9 of the EU Merger Regulation), we withdrew our request following the offer of satisfactory remedies by the parties.

### Flexibility in assessing merger cases

We are always keen to keep our investigations as short as possible, and to impose the minimum costs on business, while ensuring that we protect consumers from anti-competitive mergers. To this end, we are flexible in our approach to merger assessment in appropriate cases. Two cases during the year illustrated this:

- In the proposed acquisition by HMV of 15 former Zavvi stores, we concluded that, while the parties had overlapping stores in a number of local areas, a detailed analysis of the entertainment retailing market was not required, as the conditions for a 'failing firm' defence were met.
- In the acquisition by Govia of the South Central Passenger Rail Franchise, we assessed at a relatively early stage whether the merger might be considered a 'de minimis' candidate due to the

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**We referred seven merger cases to the Competition Commission in 2009-10. Our reference test was met in a further eight cases. Of these, we accepted undertakings in lieu of a reference to the Competition Commission in one case during the year.**



small size of the markets affected. In August 2009, we decided that the markets affected were indeed of insufficient importance to warrant a reference to the Competition Commission. By focusing up front on the 'de minimis' assessment, the parties were saved the cost of collecting survey evidence and responding to an OFT issues letter.

## Reviewing merger undertakings

### ITV

We advised the Competition Commission to consider changes to ITV's Contract Rights Renewal Undertakings (CRR), which were introduced as a condition of the merger of Carlton and Granada in 2003 and which control the price and conditions under which ITV1 advertising airtime is sold.

Our recommendations followed a review and consultation on CRR conducted with the assistance of Ofcom.

We found that while ITV1's market position had declined, it remained the key provider of very large commercial audiences, which are valued by some advertisers. The detrimental effects of the merger on the advertising market, while reduced, might therefore not have eroded completely.

However, we recognised that the CRR was not without costs and disadvantages, and that changes to the way the ITV1 schedule is delivered (such as the creation of a high-definition channel) were not addressed by the current undertakings.

In May 2010, the Competition Commission published its decision that the definition of ITV1 in the

CRR undertakings would be varied so that audience share on time shifted (+1) and high-definition ITV1 channels could be included in the CRR calculations.

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

### Bank charges

In November 2009, the Supreme Court found against the OFT when it ruled that terms used by certain UK banks for charging personal account holders for going overdrawn without prior arrangement could not be assessed in full for fairness under the Unfair Terms in Consumer Contracts Regulations (UTCCRs). This concluded a test case we had agreed to bring with seven banks and one building society. In previous hearings, the High Court and Court of Appeal had found in our favour.

After detailed consideration of the Supreme Court judgment, in December 2009 we decided against continuing our UTCCRs investigation. However, we remained concerned about the operation of the market for personal current accounts, and in particular unarranged overdraft charges. We continued to work with the banks and other stakeholders to achieve change to address these concerns.

See page 31 for more information on our work relating to the personal current account market.

### Foxtons

Estate agency Foxtons Ltd was prevented from using certain unfair terms in its letting agreements with consumer landlords after we secured a final High Court order against the firm.

In a landmark ruling following proceedings the OFT brought under the UTCCRs, the court accepted that all the terms we complained about were unfair. In particular, it ruled that Foxtons' renewal commission terms were not transparent to consumers and so represented a trap.

We wrote to letting agents and industry bodies to make clear that agents are expected to comply with the law as set out in the ruling.

### First criminal consumer protection investigation

We continued our criminal investigation into a suspected unlawful pyramid scheme. We launched the investigation in January 2009 and, in the 12 months that followed, brought charges against 11 defendants. They were committed for trial in April 2010.

The scheme appears to have been aimed at women, with each participant promising to enlist two more members. We estimate that more than £18 million may have passed through the scheme since May 2008, with thousands of consumers alleged to have paid up to £3,000 each to join.

The Consumer Protection from Unfair Trading Regulations (CPRs) prohibit schemes where money is made primarily from introducing other people into the scheme rather than from the sale of goods and services. While a small number of participants may benefit, the vast majority lose out.

The investigation is our first use of new criminal powers under the CPRs. We are working closely with South West Scambusters, Bristol Trading Standards and Avon and Somerset Police in the ongoing case.

### Retirement home fees

Our investigation continued into leasehold agreements signed by occupants of purpose-built owner-occupied retirement homes. We were concerned that a number of terms in these agreements relating to exit fees charged when residents sell or rent their properties might be unfair and so breach the UTCCRs.

We issued formal written notices to 26 retirement home firms setting out our concerns. In response, some firms indicated they would like to consider giving undertakings under Part 8 of the Enterprise Act.

Given the number of firms involved in the investigation, and in the interests of fairness and consistency, we proposed a draft set of standard undertakings for all firms. Because of the significant interest from consumers, we published this document. We received comments from most of the firms involved and other interested parties.

At the end of 2009-10, we were considering the comments received on the draft undertakings with a view to determining how to progress the investigation, including, if necessary, taking court action.

### Sale and rent-back advertising

Twelve firms offering sale and rent-back services agreed to change their advertising or take down their websites after we challenged some of the statements they were making.

Sale and rent-back involves firms buying homes from people, usually at a discount, and renting them back to the previous owners.

The unsubstantiated claims used by some firms were of particular concern since they were targeting consumers suffering financial difficulties and at risk of losing their homes.

One objective of our action was to protect consumers in advance of the new regulatory regime for the sale and rent-back sector, the first phase of which came into force in July 2009. We had recommended regulation of the sector in a 2008 market study.

### Ticketing

Fairer treatment for people buying tickets for a wide range of concerts, plays, musicals and attractions resulted from our discussions with the Society of Ticket Agents and Retailers (STAR).

Lastminute.com, Ticketmaster, the Big Bus Company and other STAR members agreed to implement revised contract terms and conditions that we considered would be clearer and fairer for the purposes of the UTCCRs. The improvements included clarification of:

- what happens if an event is cancelled or rescheduled
- when consumers can seek redress if things go wrong
- when tickets can be re-sold.

### Gym memberships

We issued High Court proceedings against gym management company Ashbourne Management Services Limited after we grew concerned about its compliance with consumer credit law and what we believed to be unfair contract terms and misleading and aggressive conduct.

Ashbourne draws up membership agreements for gyms and then collects members' payments. The agreements run for minimum periods of up to three years. Those who try to cancel in that time are billed the full amount due for the minimum period – often many hundreds of pounds. If they do not pay in full, Ashbourne reports them to a credit reference agency for defaulting on their agreement. By July 2009, Ashbourne had registered around 17,000 defaults with credit reference agencies.

Judging by the numerous complaints made to the OFT and local authority Trading Standards Services (TSS), many gym members were unaware of the full extent of their liability.

At the end of the year, a date had yet to be set for the High Court hearing.

### Misleading prize promotions

In December 2009, we issued High Court proceedings against companies and individuals behind prize draw promotions that we consider misleading and in breach of the CPRs.

The companies in question are Purely Creative Limited and Strike Lucky Games Limited, which promote various prize draw inserts in magazines and newspapers, and McIntyre & Dodd Marketing Limited and The Winners Club Limited, which issue direct mailings.

We consider the promotions are unfair because they:

- create the impression that the recipient has won a prize, which in fact cannot be claimed without incurring a cost

- deceive consumers into believing they have been particularly fortunate to have been selected or to have won a prize
- deceive consumers into thinking a prize is of high value
- omit significant information or provide ambiguous information.

At the end of the year, a date had yet to be set for the High Court hearing.

### e-consumer protection

As part of the Government's Digital Britain project, we set up an internet enforcement team.

We consulted technical and legal experts and began recruiting experienced internet investigators and training our team. We also invested in investigative software and hardware and made improvements to the Consumer Direct website to make it easier for consumers to report problems.

During the year, we opened a number of investigations, for example into the use of the internet to sell non-existent products and to make misleading claims. In the course of this work, we took action targeted at unfair practices, which led to numerous websites being shut down. We also established good working relations with other enforcers and key internet service providers.

The OFT is also part of the Secretariat of the London Action Plan international coalition against spam and online economic threats to consumers.

Further details of our consumer protection enforcement work in 2009-10 can be found in Annexe A at: [www.offt.gov.uk/annualreport](http://www.offt.gov.uk/annualreport)

## We used our new consumer credit powers selectively to impose requirements on certain businesses in order to protect consumers and ensure a level playing field for fair-dealing businesses.

### Protecting consumers in the credit market

#### Targeted use of stronger powers

Changes to the Consumer Credit Act that came into force in 2008 gave the OFT a wider range of enforcement powers and sanctions. They also enabled us to focus our resources more effectively on credit activities that pose a high risk to consumers, such as debt collecting, sub-prime secured lending and doorstep selling. This targeting enabled us to maximise beneficial impact for consumers and ensure that unnecessary burdens were not imposed on legitimate business.

During 2009-10, in conjunction with TSS, we visited several hundred high-risk businesses to help us assess their competence to provide consumer credit products and services. We also talked to trade associations to improve our knowledge of the credit markets we regulate and the business models used in these markets. This helped us assess credit providers' competence and target the areas causing greatest harm to consumers.

Throughout the year, we used our new powers selectively to impose requirements on businesses to

protect consumers and ensure a level playing field for fair-dealing businesses. For example, we insisted that Yes Loans Limited amend its terms and conditions for refunding brokerage fees. Similarly, we imposed requirements on Citifinancial Europe plc after it incorrectly claimed it did not share joint liability for overseas credit card transactions.

#### Debt management

As part of our scrutiny of the debt management industry, in November 2009 we launched a review of compliance with our debt management guidance. The review was triggered by an increase in action taken against non-compliant traders since 2008.

The review aims to:

- establish a clear picture of debt management practices
- assess compliance with the guidance
- identify reasons for non-compliance
- inform any subsequent revision of the guidance.

The review has involved extensive consultation. We plan to publish our findings later in 2010.

For examples of new guidance issued to businesses in the consumer credit market in 2009-10, see page 38.

### High-cost credit

The £35 billion-a-year high-cost consumer credit sector was the subject of an OFT review during the year. This sector is characterised by loans, usually for small amounts, repayable over short periods with high interest rates. Many of those who take out these loans have low incomes and limited access to credit and so are particularly vulnerable to rogue lenders.

We published an interim report in December 2009 setting out a summary of research and emerging evidence. Our research indicated that:

- the majority of consumers understand what types of credit are 'high-cost', but a significant number – over a quarter for some products – said they were fairly or very dependent on high-cost credit in their day-to-day life
- the speed at which money could be accessed was the main reason why consumers took out high-cost loans
- there was limited evidence to show that those who access high-cost credit shop around for better offers or different products
- around one-third of consumers using high-cost credit would still use the product if repayments were a third higher
- information on the total repayment amount is more helpful than an APR in understanding the cost of short-term credit.

We plan to publish our final report, after a full consultation, detailing the full results of our research and our recommendations for changes in the sector, later in 2010.

### Credit licensing activity

The number of new licence applications we received fell by around 20 per cent compared with 2008-09. Applications for renewal of, and variation to, existing licences also fell compared with previous years.

Our credit licensing work is funded directly by the fees paid by applicants and by licensees seeking renewals and variation. During the year, we adopted a range of measures to reduce burdens and increase efficiency – such as enabling online-only applications – while making sure we maintained a viable regulatory regime. A fee increase was nonetheless required, starting from May 2009. No increase is planned for 2010-11.

In December 2009, we consulted on plans to establish a more robust fees regime in the longer term.

A detailed account of our consumer credit licensing activity in 2009-10 can be found in Annexe B at: [www.offt.gov.uk/annualreport](http://www.offt.gov.uk/annualreport)

## Other regulatory activity

### Estate agency regulation

As the national regulator of estate agents, we continued to take proportionate action against those we considered, after careful investigation, not fit to practise.

We prohibited eight people from conducting estate agency work and issued seven people with formal

Warning Orders. We concluded other investigations by issuing informal warnings giving advice on future conduct or referring the trader to TSS.

One of the recommendations of our major study of the market for home buying and selling (see page 29) was to improve coordination between the OFT, TSS and the Ombudsmen. We will implement this recommendation to ensure a faster, prioritised response to complaints that raise serious concerns.

Full details of our estate agency regulatory work in 2009-10 can be found in Annexe A at: [www.offt.gov.uk/annualreport](http://www.offt.gov.uk/annualreport)

### Anti-money laundering

Registration started in July 2009 for businesses supervised by the OFT under the Money Laundering Regulations, which aim to reduce the possibility of legitimate businesses being used for money laundering or terrorist financing.

Under the regulations, we have a duty to supervise estate agents and certain consumer credit lenders to ensure that they are complying with their legal obligations in relation to anti-money laundering. We have powers to impose financial penalties, subject to appropriate safeguards, and to bring prosecutions under the regulations.

In February 2010, we launched a consultation on our future approach to supervision. The consultation gave firms that fall under our supervision the opportunity to have their say on the best way for us to meet the obligations set out in the regulations.

# Market tools, analysis and policy

We analysed entire markets to see if they were working well for consumers, and took part in policy initiatives at home and abroad to promote consumer rights and effective competition. We identified concerns in the markets for second-hand cars and home buying and selling and referred the market for local bus services to the Competition Commission. Our policy and research work focused on promoting compliance and self-regulation and ensuring that our market interventions are proportionate and effective.

## Market studies

### Home buying and selling

The UK market for home buying and selling continues to be dominated by traditional estate agents, who are not competing strongly on price. That was the main conclusion of our study of the market, published in February 2010.

We found that while overall satisfaction with estate agents had improved, more innovation in the sector could dramatically reduce the cost of buying or selling a home. We also found that existing legislation, which dates back to 1979, might be hindering the development of new business models.

We recommended that this legislation be updated so that new entrants, including online estate

agents and private-seller platforms, are not burdened with inappropriate regulation. However, we advised against extending the current rules as they apply to traditional estate agents. The focus instead should be on improving enforcement and guarding against serious breaches.

### Isle of Wight ferry services

Our study of Isle of Wight ferry services, published in October 2009, found limited evidence of consumer problems that could be addressed by a market intervention. For this reason, we decided not to refer the market to the Competition Commission for further investigation.

The study, undertaken following a complaint from Andrew Turner MP, acknowledged that there was room for improvement in both passenger

satisfaction and the availability of performance information. However, the ferry operators subsequently implemented voluntary measures to address these issues, such as publishing punctuality, reliability and some pricing information and undertaking customer satisfaction surveys.

### Second-hand car sales

Our market study of second-hand car sales by franchised and independent dealers, published in March 2010, identified a number of concerns and found that the £24 billion-a-year market was often not working well for consumers. We concluded that current legislation was adequate, but that more should be done to ensure that dealers are aware of the law, that consumers are aware of their rights, and that

dealers who fail to comply face effective enforcement action from the OFT and local authority Trading Standards Services (TSS).

The report highlighted a range of problems, such as the failure of dealers to resolve faults where cars were not of satisfactory quality, illegal clocking of car mileages, dealers pretending to be private sellers, and the use of illegal disclaimers.

To help address the issues identified, we are producing new guidance for second-hand car dealers on their obligations under the Sale of Goods Act and Consumer Protection from Unfair Trading Regulations. Our study also sets out clear enforcement priorities for the OFT should we find evidence of repeated and serious breaches of consumer protection law by dealers.

### Advertising and pricing practices

In October 2009, we launched investigations into the impact on consumers of potentially misleading advertising and pricing practices, focusing particularly on emerging trends in online selling. Having consulted with various stakeholders, we decided to split our work into two tightly-defined studies.

The first is looking at various pricing practices that may possibly mislead consumers. These include:

- 'drip' pricing, where a price increases in increments during the buying process
- 'baiting sales', where only certain products are available at the advertised discount price
- 'reference prices', where there is a relatively high reference price compared with the sale price, for example 'was £50, now £20', or '50% off'
- time-limited offers, for example where a special price is available for one day only, and

- complex pricing, where it is difficult for consumers to assess an individual price.

We expect to complete this study by October 2010.

The second study, into online targeting of advertising and prices, covered behavioural advertising and customised pricing, where advertising and prices are individually tailored using information collected about a consumer's internet use. We considered the benefits and possible harm to consumers of these practices, and whether existing consumer protection legislation and emerging self-regulation would address consumer concerns.

We published the findings of this study in May 2010.

### Corporate insolvency

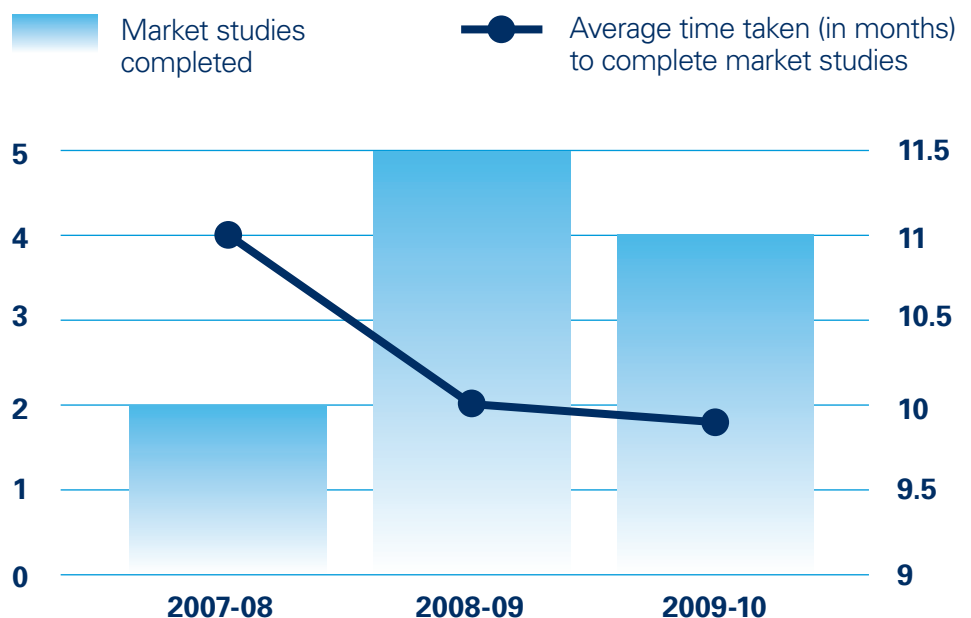
We launched a study of the market for corporate insolvency practitioners in November 2009. We are looking at the structure of the market, the appointment process for insolvency practitioners and features of the market that could result in harm (such as increased fees or reduced recovery rates for creditors) or which restrict firms and practitioners from competing freely.

Efficient insolvency services are an important component of a modern market economy. Yet a series of recent reports have highlighted the relatively high cost of closing a

## Market study delivery

The OFT is running its markets studies more efficiently than ever, with faster completion of studies that deliver considerable savings for consumers.

OFT market studies and reviews saved consumers an estimated £107 million every year over 2007-10



business in the UK. Concerns about the market have also been raised within government and the insolvency industry itself.

We plan to publish our findings in summer 2010.

### Consumer contracts

In February 2010, we launched a market study into the often complex contractual arrangements consumers enter into when buying goods and services.

The study is examining how well consumers understand typical contracts, and how this is influenced by the way contracts are presented – for example online, over the phone or face-to-face.

We are also looking at the way firms approach their consumer contracts, and at practices that could deliberately or unintentionally disadvantage consumers. We expect our findings to benefit firms that are trying to make important terms and conditions clearer to their customers.

Full details of OFT market studies can be found at: [www.of.gov.uk/OFTwork/markets-work](http://www.of.gov.uk/OFTwork/markets-work)

## Market investigation references

### Local bus services

We concluded that competition in the supply of local bus services in the UK (excluding London and Northern Ireland) was not working well for consumers, and that the market should be investigated further by the Competition Commission.

We consulted on a proposed reference, publishing the preliminary findings of our market study in August 2009. In the light of consultation responses, we made some changes to our analysis, but

## We concluded that competition in the supply of local bus services was not working well for consumers, and that the market should be investigated further by the Competition Commission.

we remained of the view that a reference was appropriate. Among the concerns we identified were:

- the concentration of provision of commercial services at various geographic levels, and the link between this and higher prices
- low levels of competition for tendered services
- barriers to entry to new competitors
- difficulties with the operation of the concessionary fares regimes.

We referred the market to the Competition Commission in January 2010.

## Other market-related work

### Personal current accounts

Following our 2008 market study into personal current accounts (PCAs), we worked with stakeholders to address concerns about transparency, switching and unarranged overdraft charges.

To improve transparency, we obtained agreement from banks to introduce annual summaries of the cost of their accounts, to highlight charges on monthly statements and to provide consumers with information on their average balances. The banks also committed to providing illustrative charging scenarios to give consumers an idea

of the cost of different patterns of PCA use, while we provided new advice and tools on the Consumer Direct website to help consumers understand and compare the costs of their accounts.

To address concerns about switching, we worked with Bacs, the payment processor, to improve the process of switching bank accounts and to increase consumer confidence in the switching process.

The issue of complexity and lack of control over unarranged overdraft charges was the subject of a Supreme Court judgment in November 2009 (for full details of the judgment and our full response, see page 25).

### Newspaper and magazine distribution

We decided not to refer the market for newspaper and magazine distribution to the Competition Commission following a wide-ranging analysis of competition in the sector informed by extensive consultation with industry stakeholders.

We considered that positive developments could come about from industry parties self-assessing their distribution agreements in line with competition guidance given in the OFT opinion published in 2008.

However, our analysis did raise some concerns. To help address these, we identified examples of

industry best practice that, if adopted more widely, could make the sector more competitive and benefit consumers.

## Super-complaints

Super-complaints can be made to the OFT by certain designated consumer bodies if they consider that a feature, or combination of features, of a market is significantly harming the interests of consumers.

### Supply of beer to pubs

The Campaign for Real Ale (CAMRA) submitted a super-complaint in July 2009 concerning the operation of exclusive purchasing obligations by pub-owning companies, which require lessees to purchase beer solely through their pub-owning company landlord.

Our analysis of the super-complaint found that competition between pubs was generally effective. We considered that the issues raised by CAMRA did not warrant further assessment and announced in October 2009 that we would take no further action.

In December 2009, CAMRA asked the Competition Appeal Tribunal to review our decision. Given the likely cost of an appeal to both parties, we offered to consult on our findings, giving CAMRA and others the chance to make representations. This consultation was launched in

February 2010, and the OFT and CAMRA agreed to adjourn appeal proceedings.

We plan to announce our next steps in summer 2010.

### Cash ISAs

Consumer Focus submitted a super-complaint in March 2010 relating to cash ISAs. It asked us to look into a series of concerns, including the barriers consumers face when switching to more competitive cash ISA accounts, the lack of clarity about interest rates for older cash ISA accounts and the offering of interest rates on ISAs for a limited period, which then fall to significantly lower rates.

We are considering the issues raised in the super-complaint and our response will be published in June 2010.

## Self-regulation

### Consumer Codes Approval Scheme

Our Consumer Codes Approval Scheme aims to promote and safeguard consumers' interests by helping them identify traders who promise to treat them fairly and to encourage businesses to improve their levels of customer service beyond the basic requirements of consumer law.

Each code passes through two stages of the approval process.

Completing Stage One means that the code has met the OFT's core criteria in principle. The code gains official approval after Stage Two, when the code's sponsor has demonstrated that:

- the code lives up to its promises
- it is being effectively implemented by all who claim to adhere to it
- consumer disputes are being properly resolved.

During the year, one code achieved OFT approval and another code completed Stage One.

The British Healthcare Trades Association became the first trade body within the health industry to receive OFT approval for its code. Its membership consists of over 400 companies supplying products such as medical equipment, stair lifts, prosthetics, rehabilitation products and visual impairment products.

Meanwhile, the Motor Codes Ltd Code of Practice for vehicle warranty products completed Stage One. Subscribers to the code administer around two million warranties for cars and motor vehicle products each year.

This took to nine the total number of OFT Approved codes and to five the total number of codes that had completed Stage One. These codes operate in markets such as estate agents, car repairs, direct selling and will writing.

A full list of OFT Approved codes can be found at: [www.offt.gov.uk/consumer-advice/approved-codes-explained/about-codes](http://www.offt.gov.uk/consumer-advice/approved-codes-explained/about-codes)

### Our approach to self-regulation

In September 2009, we published a policy statement setting out our view that self-regulation enhances

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**The British Healthcare Trades Association became the first trade body within the health industry to receive OFT approval for its code. Its membership consists of over 400 companies.**



consumer protection and helps markets function more efficiently. The statement also described our approach to working with self-regulation initiatives and outlined some new tools for assessing the potential benefits and risks of individual schemes.

In drafting our statement, we considered the responses of external stakeholders to our March 2009 policy discussion document and to our paper on the economic principles behind self-regulation. We also took account of views expressed at a major conference on business leadership in consumer protection, which we hosted in March 2009.

### Compliance partnerships

We prepared a set of principles to apply when working with our partners to maximise compliance with the Consumer Protection from Unfair Trading Regulations and the Business Protection from Misleading Marketing Regulations 2008.

The proposed policy seeks to encourage partners to act as a first port of call for resolving compliance issues, and looks at alternatives to dealing with matters through the criminal or civil courts. Our compliance partners include self-regulatory bodies, statutory enforcers, industry-funded self-regulatory and co-regulatory bodies, code scheme operators (OFT approved and non-OFT approved) and trade and business associations. All have tried and tested systems in place for tackling non-compliance.

This approach fits within the context of our wider consumer protection enforcement principles, and our commitment to make the best use of resources through a mix of incentives, support and enforcement.

## Policy and research work

### Understanding why people fall victim to scams

We published research into the psychological reasons why consumers fall victim to mass-marketed scams. The study, undertaken by the University of Exeter on our behalf, provides a valuable insight into consumer vulnerabilities and the psychological techniques scammers use to con the UK public out of an estimated £3.5bn each year.

The research findings are helping to inform the joint OFT and Serious Organised Crime Agency's national strategy for tackling mass-marketed fraud, and to design awareness campaigns to help consumers recognise and resist scams.

### Review of media merger regime

As part of the Government's Digital Britain review, we published a report on how the merger regime has affected local and regional media in the UK.

Overall, the report concluded that the current regime was fit for the needs of the media sector moving forward and that no legislative changes were needed.

However, our review noted concerns about the potential impact on local press of local authority publications. We recommended that the Government review this area and consider whether intervention, regulation or guidance would be appropriate.

## Economic studies

Economic studies continued to play an important role in our work during 2009-10. We undertook several pieces of original research to

support our consumer and competition policy development, and worked closely with both the Competition Commission and other national and international counterparts on policy initiatives.

### Road testing of consumer remedies

In conjunction with the Competition Commission, we commissioned a report from London Economics on ways to evaluate consumer remedies prior to implementation. Road testing of remedies can be an important means of ensuring that our interventions are effective. The research provided practical information for the OFT and the Competition Commission to develop our expertise in this area.

### Assessing our penalties regime

We commissioned London Economics to compare our competition penalties with those of other competition authorities. The research helped resolve two important questions: whether the OFT is setting fines at too high a level and whether large or small firms are disproportionately penalised due to their size.

The findings suggested that OFT penalties were relatively low and were not biased by company size. They also confirmed that measures other than fines – such as leniency, personal sanctions and settlements – play an important part in effective enforcement. The paper was presented, along with an OFT consultation on director disqualifications, at a seminar attended by nearly 100 people.

Full details of all our economic research reports can be found at: [www.offt.gov.uk/advice\\_and\\_resources/resource\\_base/economic-research/](http://www.offt.gov.uk/advice_and_resources/resource_base/economic-research/)

## International

International networks enable competition and consumer authorities such as the OFT to work together for the benefit of consumers and fair and competitive markets at a cross-border level as well as domestically.

### International Competition Network

In June 2009, the OFT's chief executive John Fingleton took over as chair of the steering group of the International Competition Network (ICN), a global network of 107 competition agencies. The ICN provides a forum for maintaining regular contacts with our international counterparts and addressing practical competition concerns. It also serves to build consensus and convergence towards sound competition policy principles across the global antitrust community.

### OECD

We continued to participate in the Organisation for Economic Co-operation and Development through its Competition Committee and working groups on international cooperation and competition and regulation. Discussions in 2009-10 covered topics such as patents and innovations, transparency and procedural fairness, two-sided platforms in markets and public procurement.

### Reviews of block exemptions

We were actively involved in reviews of the European Commission's Vertical Agreements Block Exemption, Motor Vehicles Block Exemption and Insurance Block Exemption. New versions of these regulations, which aim to streamline existing legislation and provide greater clarity for business, come into force in 2010.

Our work included carrying out a legal and economic assessment of the proposed changes, feeding into the Commission's legislative process. We also met with a wide range of UK businesses to gain their views on the proposals.

In addition, we took part in the Commission's ongoing review of the Research and Development Block Exemption and Specialisation Block Exemption, which are due to expire in December 2010. Our objective is to ensure that the revised framework reflects recent legal and economic developments and provides as much help as possible to businesses and their advisers.

### Cooperation on EU competition rules

The European Commission and EU member states began to examine the different ways in which the competition rules are applied across the EU to see if cooperation could be further enhanced. We engaged in this review through our participation in working groups on leniency and cooperation.

We also continued to participate in the European Commission's Advisory Committees on antitrust and mergers. The Commission is obliged to consult the appropriate committee and take account of its opinion before adopting a decision in these areas.

### Influencing European consumer policy

We worked with the Department for Business, Innovation and Skills on various initiatives to simplify and clarify European consumer law. A particular focus was on the European Commission's draft Consumer Rights Directive, which is the main means of taking forward the Commission's review of the 'Consumer Acquis' - the whole body

of EU consumer law on doorstep selling, distance selling, package travel, unfair contract terms, timeshare, the sale of goods and associated guarantees, price indications and injunctions. The new directive will amalgamate four existing directives on doorstep selling, distance selling, unfair contract terms and the sale of goods.

### Cooperation on European consumer enforcement

We continued to play an active role in international consumer networks such as the Consumer Protection Co-operation (CPC) network and the International Consumer Protection and Enforcement Network (ICPEN). This included participation in CPC joint activities and developing the strategic direction of ICPEN.

# Advocacy, advice and guidance

We undertook wide-ranging advocacy to help ensure that Government policy does not have an adverse effect on competition. Meanwhile, we armed consumers with the knowledge and skills to get the best value from suppliers and provided guidance to businesses about their rights and responsibilities.

## Advocacy

### Government in markets

We published a guide for policy makers on how to identify and minimise unintended long-term impacts on markets when fulfilling other policy objectives. It covered Government's range of roles in markets – as a direct provider and procurer, and through subsidies, tax and regulation. It formed an important part of our ongoing advocacy work to raise awareness across Government of the importance of competition.

### Choice in public services

The role of choice and competition in public services was the subject of an independent report commissioned by the OFT and published in March 2010. The report examined evidence on the use of market mechanisms across a range of public services. It provided a

framework to identify key factors in successful introductions of choice and competition. It also highlighted the benefits and pitfalls of different approaches.

Our advocacy reports can be found at: [www.of.gov.uk/advice\\_and\\_resources/publications/reports/advocacy/](http://www.of.gov.uk/advice_and_resources/publications/reports/advocacy/)

## Consumer advice

### Consumer Direct

Consumer Direct is a publicly funded national telephone and online advice service for consumers. It is managed by the OFT and delivered in partnership with local authority Trading Standards Services (TSS). It provides clear, practical and impartial advice to enable consumers to exercise their rights. It also benefits legitimate businesses by helping to maintain a level playing field, and the

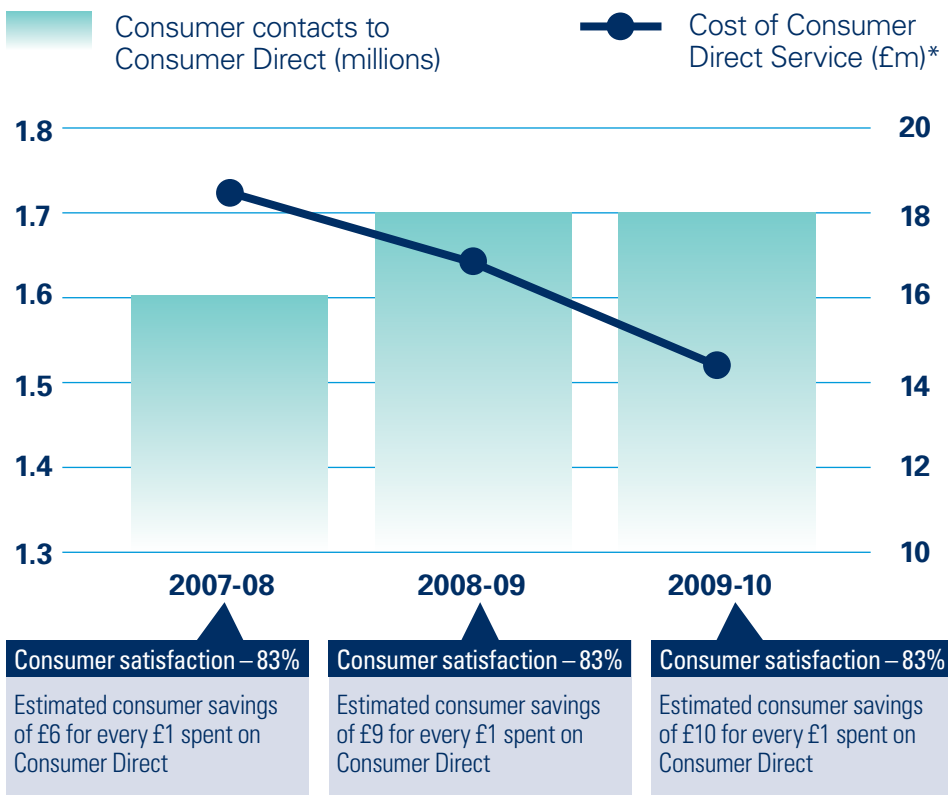
information collected helps the OFT, TSS and other bodies build intelligence and focus resources.

According to our estimates, the general Consumer Direct service (excluding complaints relating to energy and post) generated £129 million in consumer benefits over 2009-10. Given its cost base of £12.2 million, this represents a benefit-to-cost ratio of over 10:1.

Consumer Direct advisors answered over 1.7 million calls and emails in 2009-10. These included 857,000 complaint cases. They also included 190,000 calls and emails regarding energy and post during the year, which was the first full year that we delivered the service for these sectors. More than 76 per cent of calls were answered within 20 seconds and customer satisfaction levels remained high at 83 per cent. Consumer Direct website welcomed 1.7 million visitors.

## Consumer Direct efficiency savings

Consumer Direct is helping more consumers for less cost while maintaining customer satisfaction.



\* costs include provision of advice in relation to energy and post complaints

## Campaigns and education

### Just Tick It

People who buy tickets to popular sports and music events online received advice on how to avoid getting taken in by scam ticketing websites through our Just Tick It campaign.

Just Tick It generated 131 media articles, with more than 66 million 'opportunities to see' during the two months following launch of the campaign. A radio advertisement also received 1,435 free airplays over a three-month period.

Independent research immediately after the campaign indicated that 15 per cent of the target audience had seen or heard something about scam ticket websites and how to recognise them.

### Lottery scams

We ran a media relations campaign in December to help consumers identify lottery scams and resist the persuasive tactics used by the scammers. The campaign was supported by Camelot and the National Lottery Commission.

An independent media evaluation found that 132 items of media

coverage were generated, giving approximately 51 million 'opportunities to see'.

### Scams Awareness Month

The OFT's Scams Awareness Month in February 2010 focused on Scamnesty, an initiative run with TSS nationwide in which people are encouraged to collect scam mailings and drop them into designated boxes in local libraries and other public areas. We also piloted an online version of Scamnesty through which we received more than 40,000 examples of email and website scams.

Scamnesty provided valuable intelligence to the OFT and TSS by helping us identify current trends. It also generated excellent national, regional and online media coverage. Independent evaluation showed that 353 items of coverage were generated, giving 115 million 'opportunities to see'. Tracking of consumer awareness between 2009 and 2010 showed a five per cent increase in the number of people who would go to Trading Standards for advice or information on the issue of scams.

### Doorstep selling

Your Doorstep, Your Decision was a campaign to raise awareness of rogue doorstep traders offering on-the-spot home and garden repairs. In particular, the campaign targeted elderly consumers.

A leaflet was delivered to almost 7.5 million households. We also ran radio and television advertising and encouraged local radio stations to broadcast campaign messages in their programmes.

Almost 100 pieces of media coverage resulted, giving approximately 31 million

'opportunities to see'. Independent research after the campaign found a seven per cent increase in awareness of the issues.

### Save Xmas

For the third year running, we coordinated the Save Xmas campaign to raise awareness of the options available for saving for important events, particularly Christmas.

The campaign is delivered mainly through face-to-face workshops run by Citizens Advice in England and Wales, and Transact, the national forum for financial inclusion, in Scotland. The sessions target consumers as well as staff in agencies that help people on low incomes with financial issues. This activity is supported by national and regional media relations work and targeted advertising.

Independent research published in March 2010 found that:

- between 2007 and 2009, 120,000 consumers attended face-to-face workshops run by Citizens Advice, Transact and other intermediaries
- 97 per cent of attendees who completed survey forms rated the sessions as useful
- a year after participation, 90 per cent of survey respondents said they felt confident about choosing saving options and 42 per cent reported changing their saving habits.

### Skilled to Go

Our Skilled to Go educational materials help students develop their consumer skills, knowledge and confidence, alongside their literacy and numeracy. During the year, we produced new versions of the materials for TSS and Scottish secondary schools as

well updating our adult education resources. We also trained 150 teachers to use Skilled to Go and supplied 40 packs for teachers to train their colleagues.

By the end of the year, approximately 5,400 teachers (including teachers from more than a third of Scottish secondary schools) and 50 per cent of TSS had registered to access the materials.

### Sale of Goods Act awareness

We consulted with retail businesses and their trade associations to identify how to increase understanding of consumer rights under the Sale of Goods Act among frontline sales staff. We began developing the Sale of Goods Act Hub – an online portal of educational materials and promotional tools to support businesses in providing consumer rights training for staff.

## Business guidance

### Private litigation in competition cases

We published guidance for smaller companies considering taking private actions where they have suffered loss as a result of breaches of competition law.

The guidance, publication of which meets a commitment we made to the National Audit Office,

explains the circumstances in which businesses may seek redress by bringing claims in the courts or by pursuing other means of dispute resolution such as settlement or arbitration. It also summarises the framework for competition private actions in the UK and Scottish courts, the steps involved in bringing a claim and the redress potentially available.

Our quick guide to private litigation in competition cases can be found at: [www.ofc.gov.uk/shared\\_ofc/business\\_leaflets/private-litigation.pdf](http://www.ofc.gov.uk/shared_ofc/business_leaflets/private-litigation.pdf)

### The application of competition law

We began a pilot of a new short-form opinion tool to provide guidance to businesses and policy makers on novel or unresolved questions about the application of competition law to prospective collaborative conduct. When the pilot is complete, we will evaluate whether the new tool has been successful and whether we should roll it out more widely.

### Competition in the construction sector

We built on our recent enforcement activity in the construction sector by undertaking a programme of presentations to people operating in the sector, including public and

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**Our 'Your Doorstep, Your Decision' campaign targeted elderly consumers and raised awareness of rogue doorstep traders offering home and garden repairs by seven per cent.**

private procurers. We set out how cover pricing and compensation payment activities have the potential to distort competition. We also advised procurers on how to design their tenders to minimise the risk of bid rigging and how to spot it when it occurs. See page 21 for more on our action against bid rigging in the construction sector.

### Mergers

We published revised jurisdictional and procedural guidance on mergers. The revision was necessary since six years had elapsed since publication of the original procedural guidance in May 2003. In a change of format welcomed by stakeholders, the text combines guidance on both jurisdiction and procedure.

We also consulted on two sets of revised guidance: on the substantive assessment of mergers, and on exceptions to the duty to refer mergers to the Competition Commission and to accept undertakings in lieu of a reference. Both new draft guidance documents reflect six years of developing practice since the Enterprise Act came into force. We expect to publish both finalised guidance documents in summer 2010.

Our jurisdictional and procedural guidance on mergers can be found at: [www.offt.gov.uk/shared\\_offt/mergers\\_ea02/oft527.pdf](http://www.offt.gov.uk/shared_offt/mergers_ea02/oft527.pdf)

### Market studies

We launched a consultation on revised market studies guidance. The revised guidance explains why the OFT conducts market studies, the principles we use

to select markets for study and how we manage study projects. It also identifies the potential outcomes of a study and sets out how we evaluate our work. We expect to publish the final guidance in summer 2010.

### Second-charge lending

To facilitate improvements in the second-charge lending sector, we published guidance that sets out the minimum standards we expect from businesses engaged in such lending. Second-charge loans, or homeowner loans, involve consumers with an existing mortgage taking out further personal borrowing secured against their home. Defaulting on such a loan can ultimately lead to repossession. As a result, we consider second-charge lending to be a high-risk category of consumer lending that merits increased scrutiny. If any breaches of the guidance are identified, we will consider enforcement or regulatory action.

Our second-charge lending guidance can be found at: [www.offt.gov.uk/shared\\_offt/business\\_leaflets/general/oft1105.pdf](http://www.offt.gov.uk/shared_offt/business_leaflets/general/oft1105.pdf)

### Irresponsible lending

In March 2010, after extensive consultation, we published guidance setting out practices that we believe constitute irresponsible lending. It covers the lending process from advertising through to the handling of arrears and default.

Publication of the guidance followed a consultation exercise during 2009-10. This attracted a large number of responses.

Since 2008, when assessing the fitness of a business to hold a consumer credit licence, the OFT has had a duty to consider any practices involving irresponsible lending.

Our irresponsible lending guidance can be found at: [www.offt.gov.uk/shared\\_offt/business\\_leaflets/general/oft1107.pdf](http://www.offt.gov.uk/shared_offt/business_leaflets/general/oft1107.pdf)

### Consumer requests under the Consumer Credit Act

We began consulting on draft guidance for consumers and industry on sections of the Consumer Credit Act that allow consumers to request information about their credit agreements. The guidance is being developed to help address concerns that:

- some debtors are being misled into thinking these sections can be used to get their debts written off
- some creditors are not complying with their legal obligations to provide information to customers.

The consultation concluded in April 2010.

### General enquiries

The OFT Enquiries and Reporting Centre (ERC) responds to telephone and written enquiries from consumers and businesses on almost every facet of the OFT's activities. During the year, the ERC team handled approximately 85,000 telephone calls and 23,000 letters and emails, and provided consistent, up-to-date and timely replies. We achieved our target of responding to 90 per cent of all written correspondence within 10 working days.

# Improving the way we work

Throughout the year, we pressed ahead with work to improve our performance as an organisation. We sought to be transparent and to engage effectively with the stakeholders who contribute to, or are affected by, our activities. Through evaluation of our interventions, we were able to make good use of our resources to achieve high-impact outcomes for consumers. We also developed our people and the working environment to enhance our ability to deliver.

## Transparency

During 2009, we consulted on proposals for improving the OFT's transparency. This was the latest stage in a project begun in 2008. During the consultation, we met a number of interested organisations to hear their views.

Taking into account the responses, we developed our approach to engagement and transparency in three areas: enforcement, market studies and reviews of orders and undertakings. At the end of the year, we were preparing a statement telling those involved in our work what information we will provide throughout the life of a case or project and how we will engage with them.

Details of our transparency work can be found at: [www.of.gov.uk/about/transparency](http://www.of.gov.uk/about/transparency)

## Engagement

During the year, we continued to be more systematic in our engagement with the many organisations that have an ongoing interest in the OFT's work.

We maintained our dialogue with business groups, including through regular high-level meetings to discuss policy, compliance and other areas of common interest. Throughout the year, the OFT Chairman, Chief Executive and senior directors addressed business audiences including the Trade Association Forum, Cass Business School, the Industry Forum and a range of law firms.

### Competition compliance working group

In November 2009, we set up a competition compliance business

working group to bring together OFT officials and representatives from the CBI, Institute of Directors, Trade Association Forum and Federation of Small Businesses to explore ways of improving business compliance with competition law. To support this work, we conducted an extensive survey of the business community to gain insight and help shape our thinking and next steps.

### Consumer organisations

We set up a Consumer Concurrences Group to provide a forum for consumer protection bodies to share best practice and meet to discuss common issues of interest.

We continued to liaise closely with consumer groups, including Which?, Citizens Advice and Consumer Focus on a wide range of issues from campaigning activities and

## We estimate that the OFT delivers direct financial benefits to consumers of seven times our cost to the taxpayer.

market studies to our shared concerns about the effect on vulnerable consumers of the economic downturn.

### Discussion events

Our broad range of responsibilities means we must continually strive to understand better the relationships between consumers, firms and markets. To help us do this we launched a programme of events to discuss a range of issues that are important to our work with a wider set of stakeholders and at an earlier stage than would otherwise be the case.

Each event brings together a range of senior representatives and experts from business, government, academia and consumer organisations. One event examined factors that affect consumer trust in markets, including the economic downturn, recent high-profile business failures and new technologies. Another, co-hosted with Consumer Focus, looked at the challenges of growing complexity in products and transactions.

Summaries of these events, and others arranged by the OFT, can be found at: [www.offt.gov.uk/news/events/](http://www.offt.gov.uk/news/events/)

### Devolved administrations

The OFT Representative Office in Scotland carried out a wide range of advocacy with the devolved administrations of Scotland, Wales and Northern Ireland.

As part of a programme of competition awareness, we ran a roundtable event for economists and training for lawyers in the Scottish Government and a workshop at Scotland's National Economic Forum.

We updated a memorandum of understanding (MOU) between ourselves and the Crown Office in Scotland to give greater certainty for businesses and individuals confessing to involvement in cartel activity. The revised MOU clarifies the process for gaining criminal immunity in Scotland, where the procedures are different from those in the rest of the UK.

We supported the work of the Scottish Government to lift restrictions on the business models within the legal service market in Scotland. Also during the year, we contributed to Scottish Parliament considerations, in particular of the economic aspects of minimum pricing for alcohol in the Health Bill and of the merger aspects of financial services in the inquiry by the Economy, Energy and Tourism Committee.

We followed up the recommendations of our market study in Scotland on property management services with the Scottish Government's accreditation group and with Consumer Focus Scotland.

In Northern Ireland, we launched an initiative for business, consumer and wider economic interests to

provide a focus for developing awareness of competition. With the Welsh Assembly Government, we contributed to a Local Better Regulation Office group developing national enforcement priorities for Wales.

## Evaluation

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 doing so cost-effectively.

### Positive impact estimation

Our performance target with HM Treasury commits us to delivering direct financial benefits to consumers of at least five times our cost to the taxpayer. Our performance against this target is monitored by our positive impact estimates, with the most recent estimates, published in July 2010, showing a benefit-to-cost ratio of 7:1.<sup>2</sup>

In January 2010, an independent report by Professor Stephen Davies confirmed the rigour and prudence of our impact estimation methodologies.

### Embedding impact estimation and monitoring

We continued to embed impact estimation and monitoring in our day-to-day work.

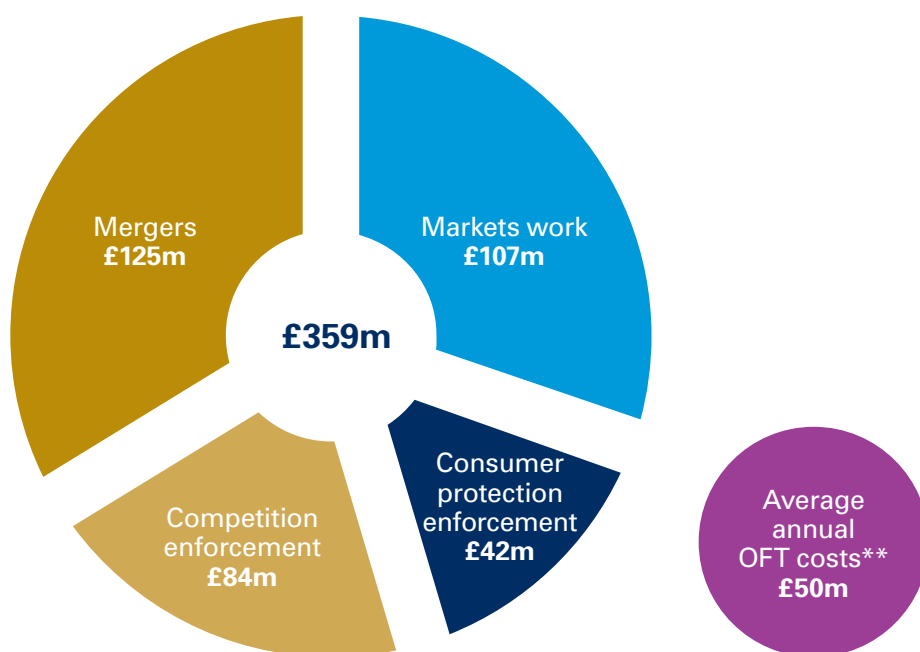
During prioritisation, we estimate the likely impact of intervention and update these estimates in the course of the project and after completion. For instance, by analysing the results from omnibus surveys and a web sweep during 2009-10, we were able to monitor our 2007 internet shopping market study. The monitoring indicated

<sup>2</sup> Our impact estimates and underlying assumptions and methodologies are audited by an independent academic consultant - Professor Stephen Davies.



## Positive impact

Estimated direct financial benefits to consumers  
(average annual over 2007-10)\*



\* Estimates are based on conservative assumptions and reflect the direct financial benefits to consumers of the OFT's markets work, consumer protection enforcement, competition enforcement and mergers work. The estimates do not include the benefits arising from the deterrent effect of OFT work in the above areas.

\*\* Costs figures exclude costs of Consumer Direct, anti-money laundering supervision, and consumer credit licensing.

that there had been many positive changes in the market following our study and subsequent activities – including an improvement in business compliance with relevant legislation and a growth in consumers' awareness of their rights when shopping online.

During the year, we also continued to work towards improving our understanding of the impact of our consumer awareness and education campaigns (see page 36).

### Independent evaluations of interventions

As part of our programme of in-depth independent evaluations of OFT interventions, we published the following reports in 2009-10:

- Evaluation of the 2003 market study on 'The control of entry regulations and retail pharmacy services in the UK'. This report highlighted the net benefits and increased consumer welfare

derived from the relaxation of entry regulations in the sector in England. It fulfilled our annual plan commitment to evaluate at least one market study per year.

- Evaluation of consumer enforcement interventions. This study reviewed a cross-section of six consumer protection interventions and showed that they all delivered significant benefits to consumers. The report also considered ways to enhance the positive impact of future interventions.
- Evaluation of consumer credit interventions. The analysis of six case studies strongly supported the case for OFT intervention in the consumer credit area, highlighting the value both of guidance and of targeted enforcement action.

### Evaluating our wider benefits

We undertake or commission research to analyse the OFT's wider benefits to consumers such as the deterrence effect of our interventions or our impact on consumer confidence. For instance, our November 2009 report on consumer confidence confirmed that key indicators were moving in the right direction, particularly in markets where the OFT had intervened. It also showed that, overall, the UK performs well on consumer rights, information provision and switching indicators, with OFT activities positively influencing consumer confidence in specific areas.

Full details of our evaluation programme, including evaluation reports, can be found at: [www.of.gov.uk/advice\\_and\\_resources/resource\\_base/evaluation/](http://www.of.gov.uk/advice_and_resources/resource_base/evaluation/)

## Working with Trading Standards Services

We sought to strengthen our relationship with local authority Trading Standards Services (TSS), who are our key partners in enforcing a wide range of laws.

### Intelligence management

We launched a new database that allows the OFT and TSS to collate, analyse and share intelligence. The database is available to all TSS in the UK. It helps us target businesses causing serious harm to consumers.

To provide TSS with quick and accurate intelligence on criminal activity, we negotiated with the Association of Chief Police Officers to allow TSS direct access to the Police National Computer (PNC). This followed a successful pilot with Bristol City Council. We expect access to the PNC to be rolled out to TSS by autumn 2010.

### Evaluating the impact of Trading Standards Services

We published a Fair Trading Impact Calculator that gives TSS a simple way of estimating the consumer savings delivered by their fair trading work. TSS can use these figures to raise the profile and understanding of their work and inform planning and prioritisation.

Publication of the calculator follows joint OFT and TSS work that estimated that the fair trading work carried out by TSS across the UK delivers direct consumer savings of at least £347 million a year, with an average benefit-to-cost ratio of at least 6:1.

The Trading Standards Impact report, including methodologies used to estimate consumer savings, can be found at: [www.offt.gov.uk/shared\\_offt/about\\_offt/offt1085.pdf](http://www.offt.gov.uk/shared_offt/about_offt/offt1085.pdf)

## Streamlining competition investigations

We reviewed our procedures with the aim of streamlining our competition investigations while respecting parties' rights of defence. We looked both at our internal processes and at how we interact with parties to our investigations. We established a team to trial new ways of improving case efficiency and, during 2010-11, will introduce a number of improvements.

## Global Competition Review

In its annual survey of the world's leading competition authorities in June 2009, Global Competition Review (GCR) gave the OFT four-and-a-half stars out of a possible five. This was an increase of half a star from 2008 and led to the OFT being ranked joint fourth in the survey alongside the European Commission's Directorate General for Competition. A wide range of factors contributes to and reflects the performance of competition authorities. The GCR survey takes account of a selection of these.

The GCR report was positive, particularly praising:

- our speedy provision of guidance to business on our approach to 'failing firm' mergers (where the parties argue that, without the merger, the target business would exit the market)
- our provision of robust advice on the Lloyds/HBOS merger
- our early settlement programme (where we seek to resolve cases without the need to complete a full administrative procedure by agreeing with one or more parties a reduced penalty in return for specific admissions of liability and other types of cooperation)

- advances made in long-running cartel cases.

## Staff development

### Talent management

To improve our ability to attract, retain, develop and motivate talented staff, we carried out a range of activities including:

- assessing the performance and potential of staff at Grade 6 and Senior Civil Servant levels
- running a development centre for Grade 6 staff
- facilitating lateral moves by key senior staff to other areas of the OFT to help them broaden their experience.

### Career management

We revamped the OFT version of the 'Professional Skills for Government' competency framework to make explicit the skills our people need to do their jobs well. This will help staff at all levels to manage their careers and assist line managers in developing people in their teams.

We also started work on an online career portal. This will give staff access to career management tools and e-learning courses and will provide managers with management and leadership information to use in discussions with individuals and teams about their performance, development and career progression.

### Leadership development

We continued to develop our people's capabilities, including the leadership capabilities of the OFT's senior team to drive our performance, direct the organisation and engage our people.

## Diversity of staff, March 2010

	Women	From ethnic minorities <sup>†</sup>	With disabilities <sup>††</sup>
All staff	51.2%	22.0%	3.8%
Senior civil servants	34.0%	11.1%	6.8%
Senior managers	46.1%	9.2%	1.1%
Executive staff	55.4%	26.9%	4.8%
Clerical and support staff	61.8%	51.9%	5.7%

† Percentage is of those who have stated their ethnic background. 15.6% of staff have not declared their ethnic background

†† Percentage is of those who have stated their disability status. 17.4% of staff have not declared their disability status

## Diversity of new staff recruited in 2009-10

	Women
Women	53.4%
People from ethnic minorities <sup>1</sup>	19.5%
People with disabilities <sup>2</sup>	0.0%

1 Percentage is of those who stated their ethnic background. 9.9% of recruits did not state their ethnic background

2 Percentage is of those who stated their disability status. 21.4% of recruits did not state their disability status

### Investors in People

The OFT is accredited to the Investors in People (IiP) standard. A review in May 2009 by the IiP body concluded that we fully met all its criteria.

### Diversity and equality

We continued to implement our diversity plan, which is aligned to the Civil Service diversity and equality strategy. Highlights included awareness-raising talks by Michael McGrath, the first wheelchair user to reach the North and South Poles, and Stephen Foster, Head of Diversity for the London Olympics. We also set up new staff networks for Christians and for carers. They run alongside existing networks such as those for people from ethnic minorities and for people with disabilities.

During the year, we achieved our targets for the representation of diverse groups in Senior Civil Servant roles.

In March 2009, the Office updated its diversity statistics, redefining some categories and re-surveying all current staff. We also upgraded the process for collecting diversity information at recruitment. Declaration rates now exceed 80 per cent in all strands.

### Employee engagement

We developed an employee engagement strategy during the year. Among other things, this seeks to:

- improve understanding of, and commitment to, our vision and direction
- boost employee involvement and autonomy

- promote work-life balance.

In the 2009 Civil Service staff survey, the OFT scored 62 per cent for employee engagement – four points higher than the Civil Service average and only one point below the high-performance benchmark.

### Recruitment

During the year, we recruited 131 new staff. At 31 March 2010, the OFT had 642 staff in post compared with 596 at the same point in 2009.

We adhere to the Civil Service Recruitment Principles of open and fair competition and selection on merit. Twenty candidates were recruited during the year under the arrangements for permitted exceptions to the Principles.

# Operating and financial review

**Our activities are funded by Parliamentary Vote. In 2009-10, we had a Total Net Resource Requirement of £66.1m and a further allocation of £1.8m for capital expenditure. During the year we received HM Treasury agreement to move £0.9m of the budget allocation from resource to capital. This switch did not require Parliamentary approval.**

During the year, actual outturn amounted to £63.2m against this estimate, an underspend of £2.9m (4 per cent).

£3.1m of the underspend relates to our day-to-day operations. This represents an underspend against available funding of 4.5 per cent. Within this, almost all budget holders reported small underspends and no significant causes were identified.

A further £0.8m of the underspend occurred on programme expenditure. Our programme expenditure consists of a modest litigation budget, which is ring-fenced. An underspend against this budget cannot be used elsewhere.

Net operating costs for the year were £61m, which we incurred in pursuit of our objectives as detailed in the Statement of Net Operating Costs by Departmental Strategic

Objectives. The difference between net resource outturn and net operating costs relates to allowable income we collected and surrendered to the Consolidated Fund.

Our income included £10.2m in respect of fees and charges levied on external customers in respect of license fees charged for the administration of the Consumer Credit Act 1974 and £1.2m in respect of fees charged for registration under the Money Laundering Regulations 2007. We also recognised £1.9m from the Department for Business, Innovation and Skills as a contribution to the development costs of Consumer Direct and £1.7m in merger fees. The rest of our income comprised £0.3m in respect of recovered legal costs, £0.8m in respect of a non-domestic rates adjustment for the previous five years and a contribution of £0.3m from the government's Asset Recovery Incentivisation Scheme.

We invested £2.5m in capital expenditure in the year, the largest portion of which was spent on IT including hardware, software and assets under construction.

## 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 £71,000, which included £7,000 for the final stage of the conversion to International Financial Reporting Standards and £4,000 for the audit of the Whole of Government Accounts return.

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 Chiene + Tait, but managed by an OFT staff member who was appointed as Head of Internal Audit during the year. Following a re-tender exercise, PriceWaterhouseCoopers became the external provider of internal audit services from 1 April 2010.

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

We pay suppliers in accordance with the Government's payment performance targets. These require us to pay all invoices not in dispute within 8 working days, after allowing two days on top of the invoice date to cover transit time.

In 2009-10 we paid 52.1 per cent of invoices within this target (4th quarter 2008-09: 38.4 per cent).

#### **Report of personal data related incidents**

We, along with other government departments, are required by Cabinet Office to report annually on the following:

- protected personal data related incidents formally reported to the Information Commissioner's Office in the year
- centrally recorded protected personal data related incidents not formally reported to the Information commissioner's Office in the year.

Two protected personal data related incidents were reported to the Information Commissioner's Office (ICO) during the reporting period. The first incident involved the inadvertent disclosure of third party email addresses and was reported to the ICO on 15 February 2010.

The second incident, concerning the transfer of personal data to our HR service provider, was reported to ICO and Cabinet Office on 14 June 2010. The circumstances surrounding this incident are currently under investigation.

A total of 29 non-reportable incidents occurred during the year.

Many of our information security risks relate to the commercially sensitive data we handle and process in carrying out our investigatory and enforcement work.

We are continuing to work towards meeting the requirements of the Government's Security Policy Framework to improve the way we identify, assess and manage our information security risks.

#### **Sickness absence**

After allowing for normal leave entitlement, 3.4 per cent of the total available working days were lost due to staff sickness absence.

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**We are continuing to work towards meeting the requirements of the Government's Security Policy Framework to improve the way we identify, assess and manage our information security risks.**

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# Focusing on the future

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**The uncertain economic climate means that the OFT's combined competition and consumer role is more vital than ever. Competitive, well-functioning markets delivering real benefits to consumers, and providing protection for them where necessary, are crucial to sustain the economic recovery.**

We take a holistic view of market problems, which allows us to tailor proportionate interventions and deliver effective outcomes for consumers and for the UK economy.

We will continue to target our enforcement activity at areas that pose the most risk to consumers. Credit and debt issues will remain a priority for us and we will take action against any business trying to take advantage of consumer vulnerabilities. We have already identified that consumers' increasingly complex relationships with business over the internet require us to build on our existing expertise and develop a specific strategy for addressing online consumer protection issues.

Our consumer-facing activity will focus on encouraging or creating conditions that prevent harm occurring in the first place. Skilled, confident and well-informed consumers are essential if markets are to work well. We will seek to engage businesses as well, combining help and guidance and seeking voluntary change to encourage compliance with both competition and consumer legislation.

We have a role demonstrating to Government the virtues of competition and the pitfalls of short-term policy fixes that cause longer-term damage to consumers as well as to markets and the economy. We will build upon the good advocacy work carried out last

year to ensure that competition implications and market-based solutions are fully considered where appropriate in policy development.

The tough economic conditions have also imposed obligations on the OFT. As a taxpayer-funded organisation, the pressure is on us to continue to improve efficiency and use of public funds. We are committed to doing more for less and improving our value for money and have a number of initiatives planned or underway to help us achieve our third successive year-on-year efficiency saving.

We must also continue to minimise burdens on business by reducing any unnecessary costs of our interventions. The wide range of remedies at our disposal means we can tailor proportionate interventions, always with the aim of helping markets serve consumers and promote the growth of the UK economy.

## **Performance framework**

Our performance framework for 2010-11 remains as agreed under the Comprehensive Spending Review 2007. Both this framework and our aims and priorities for 2010-11 are set out in our annual plan.

Our annual plan for 2010-11 can be found at:  
[www.offt.gov.uk/annualplan](http://www.offt.gov.uk/annualplan)

Emerging  
markets and  
new business  
models

**Strategic focus for next 1 to 3 years**

**High-impact  
enforcement**

**Influence**

**Delivery**

Government as  
a buyer, seller,  
market maker

Increase efficiency of competition enforcement.

Increase impact and profile of consumer and credit enforcement.

Address issues that matter to the economy and consumers, and deploy competition and consumer tools flexibly.

Greater compliance by business, reinforced by our enforcement activity.

More active and informed consumers with sufficient protection for the vulnerable.

Be an objective arbiter of markets and a source of expertise, focusing our efforts on the key government developments.

Continuous improvement to the competition and consumer regimes, in policy and implementation.

Increase our effectiveness by improving our ability to work with and through selected partners.

Ensure the right balance of staffing that is adaptable, agile, well-managed and has the right skills and experience.

Improve decision-making, where appropriate, to support faster and more effective delivery of cases and projects.

Increase our overall efficiency ('more for less') while maintaining a focus on delivery.





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# Resource Accounts

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These Resource Accounts have been prepared and published by the Office of Fair Trading (OFT). The Accounts have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. The Accounts demonstrate the resources that have been used to deliver the OFT's objectives. These Resource Accounts have been prepared in accordance with the guidance set out in the Government Financial Reporting Manual.

## Remuneration Report

### 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.

### Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body has regard to the following considerations:

- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- Regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- The funds available to departments as set out in the Government's departmental expenditure limits;
- The Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

The Chairman's, Chief Executive's and non-executive board members' remuneration and other terms and conditions of service are determined by the Secretary of State for Business, Innovation and Skills.

The OFT remuneration committee determines the salaries paid to Senior Civil Servants within the OFT. During 2009-10 the committee comprised Philip Collins, John Fingleton, Alan Giles and Philip Marsden.

Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

### Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code. The Code requires appointment to be on merit on the basis of fair and open competition, but also includes 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 Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).

### Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior management (i.e. Board members) of the OFT:

## Remuneration (salary and payments in kind)

	2009-10		2008-09	
	Salary	Benefits in kind (rounded to the nearest £100)	Salary	Benefits in kind (rounded to the nearest £100)
<b>Senior management:</b>	<b>£000</b>	<b>£</b>	<b>£000</b>	<b>£</b>
<b>John Fingleton</b> Chief Executive	275 – 280	-	270 - 275	-
<b>Jonathan May</b> Executive Director, Policy and Strategy, and Markets and Projects	150 - 155	-	150 - 155	-
<b>Vivienne Dews</b> Executive Director, Corporate Services	135 - 140	-	135 - 140	-
<b>Sean Williams</b> Executive Director, Markets and Projects to 25 July 2008	-	-	60 - 65 Full year equivalent 160 - 165	-
<b>Non-Executive Board Members:</b>				
<b>Philip Collins</b> Chairman	175 – 180	-	170 - 175	-
<b>Norman Blackwell</b>	20 – 25	-	20 - 25	-
<b>Alan Giles</b>	20 – 25	-	20 - 25	-
<b>Frédéric Jenny</b>	20 – 25	-	20 - 25	-
<b>Anthony Lea</b>	20 – 25	-	20 - 25	-
<b>James Hart</b>	20 – 25	-	20 - 25	-
<b>Philip Marsden</b>	20 – 25	-	10-15 Full year equivalent 20 - 25	-
<b>Richard Whish</b>	-	-	20 - 25	-
<b>Bronwyn Curtis</b>	-	-	10-15 Full year equivalent 20 - 25	-

In addition, 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 £15,627 in 2009-10 (2008-09: £9,448) and the OFT meets the resulting tax liability on behalf of those Directors.

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

	<b>Date:</b> (A) appointed (R) reappointed	Appointment expires or date of leaving
<b>Philip Collins</b>	(R) 1 October 2009	30 September 2013
<b>Norman Blackwell</b>	(R) 1 April 2008	31 March 2010
<b>Alan Giles</b>	(A) 1 April 2007	31 March 2011
<b>Frédéric Jenny</b>	(A) 1 April 2007	31 March 2012
<b>Anthony Lea</b>	(A) 1 April 2008	31 March 2012
<b>James Hart</b>	(A) 1 April 2008	31 March 2011
<b>Philip Marsden</b>	(A) 1 October 2008	31 March 2013

Norman Blackwell's appointment ended on 31 March 2010. The appointment of two new Non-Executive Directors, with effect from 1 April 2010 William Moyes and Alan Cook, was announced on 31 March 2010.

## Salary

'Salary' includes gross salary; performance pay or bonuses; 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 2009-10.

## Pension Benefits

	Accrued pension at pension age as at 31 March 2010 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2010	CETV at 31 March 2009	Real increase in CETV
	£000	£000	£000	£000	£000
<b>John Fingleton</b> Chief Executive	15 – 20	2.5 – 5.0	235	164	53
<b>Jonathan May</b> Executive Director, Policy and Strategy, and Markets and Projects	65 – 70 plus lump sum of 200 – 205	5.0 - 7.5 plus lump sum of 20.0 – 22.5	1,611	1,394	167
<b>Vivienne Dews</b> Executive Director, Corporate Services	55 – 60 plus lump sum of 170 – 175	0 – 2.5 plus lump sum of 5.0 – 7.5	1,261	1,148	48

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 changes in the Retail Prices Index (RPI). 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 set at the rate of 1.5 per cent of pensionable earnings for **classic** and 3.5 per cent for **premium**, **classic plus** and **nuvos**. 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 updated in line with RPI. 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-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

### 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.

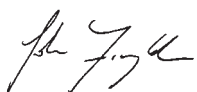
The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculties of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### Real increase in CETV

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

### Compensation for loss of office

No payments were made as compensation for loss of office to any Board Members during 2009-10.



### John Fingleton

Chief Executive and Accounting Officer  
14 July 2010

## Statement of Accounting Officer's Responsibilities

Under Section 5 of the *Government Resources and Accounts Act 2000*, HM Treasury has directed the OFT to prepare, for each financial year, resource 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 the OFT and of its net resource outturn, resources applied to objectives, income and expenditure, recognised gains and losses 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 as Accounting Officer of 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 HM Treasury.

## Statement on Internal Control

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of OFT's policies, aims and objectives set by the OFT Board, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money* and under the principles of operation described in the code of good practice *Corporate Governance in Central Government Departments*, both produced by HM Treasury.

### The purpose of the system of internal control

The system of internal control is designed to manage risk rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

- Risk to OFT takes various forms: financial risk, project/casework risk, risk to our partners and stakeholders, risks from policy changes or missed opportunities, and risk to our reputation. Such risks can affect our performance, staff, stakeholders and the consumers whom we champion.
- The system of internal control is based on an ongoing process of identification and prioritisation of risks to the achievement of OFT's policies, aims and objectives; evaluation of the likelihood of those risks being realised, and the impact should they be realised; and the management of those risks bearing in mind the principles of economy, efficiency and effectiveness. I am committed to the continuing development, monitoring and review of this system to ensure it continues to be effective and integral to OFT business processes. The system of internal control has been in place in OFT for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Roles and responsibilities

The OFT Board, which has a majority of non-executive members, has overall responsibility for determining OFT's system of internal control and for reviewing its effectiveness, and annually approves and reviews the risk policy and strategy.

The Audit Committee, a sub-committee of the Board, advises me on the adequacy of the audit arrangements and on assurances received in respect of risk management and internal control. The Audit Committee is structured in line with the Treasury Audit Committee Handbook. A non-executive Board member chairs the Committee, with the other members being non-executive Board members. The Audit Committee met four times between 1 April 2009 and 31 March 2010.

The Executive Committee (ExCo) advises the Board and has overall responsibility for the setting of policies on risk management and internal control. I chair the committee, whose members comprise the Executive Director of Corporate Services and the Executive Director of Policy and Strategy, and Markets and Projects. Also in attendance at meetings are the Senior Director of Communications and the Director of Executive Office. ExCo delegates to the Operations Committee (OpCo) responsibility for the implementation and application of the policies and framework.

OpCo, chaired by the Executive Director, Corporate Services, ensures that OFT has the operational capability to deliver outputs that meet its objectives. As well as risk management, OpCo focuses on financial matters, human resources, facilities, management information and performance against targets across the organisation. It also has a role in business planning and prioritisation.

## The risk and control framework

The OFT approach to risk was revised during late 2007 and the current framework introduces a number of key principles to risk management.

- Individual level responsibility
- Appropriate and effective escalation
- Cross office collaboration
- Effective recording and reporting

Risks are now recorded in one of three categories:

- **Outcome:** Those risks related to the quality and consistency of OFT work
- **Operational:** Those risks related to delivery
- **Reputational:** Those risks related to external reputation and relationships

## Risk management and reporting

ExCo has identified those risks which it considers to be the most significant to the organisation. Each of these risks is individually owned by an ExCo member.

Corporate risks are updated on a quarterly basis and reported to the Board as part of the quarterly Executive report to the Board. Updates on the management of corporate risks are also reported to the Audit Committee biannually.

OpCo reviews the corporate risk register on a monthly basis, taking a specific corporate risk each month and investigating the relevance of the risk to the business, testing the mitigations in place and reviewing whether the plans in place are sufficient or should be adapted to take into account changes in circumstances.

Below this, Groups maintain risk registers that record workstream level risks; these are updated monthly. The most significant risks from Group level registers are selected by Executive Directors to be reported to the Board as part of the Executive Report to the Board.

## Content

OFT's risk management arrangements were reviewed by internal audit, who concluded that it was essentially a sound system with some areas for potential improvement. In particular OFT needs to better articulate its risk appetite and to improve the documentation and mapping of assurance. These issues will be addressed in the forthcoming year. In 2010-11, responsibility for leading the risk management process will pass from Strategy & Planning Group to Finance Group.

## Risk review workshops

Throughout the year we have continued to provide training and guidance to various parts of the office on management of risks. This has included risk workshops with senior management teams as well as specific project teams. The workshops are aimed at ensuring the associated risks are identified with the specific area of the organisation and that appropriate management is in place.

## Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within OFT who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports. I have also been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, ExCo, OpCo and the Audit Committee which reviews, and where it considers necessary, advises on mechanisms for the assessment and management of internal control and risk

## Consultation

The 2010-11 Annual Plan was published on 29 March 2010 following a period of consultation launched on 13 November 2009. During the consultation process the full annual plan was made available on-line and meetings were held with a number of key stakeholders.

## Information assurance

In March 2008, Cabinet Office introduced requirements across government for data handling and information security, to be implemented by end March 2009. OFT devised a structured programme of improvements to meet Cabinet Office requirements. While some work is still required to define our policy on National Security Vetting all other Security Policy Framework requirements for the last reporting period (to June 2009) have been successfully met.

## Significant Internal Control Issues

Previous Statements on Internal Control described OFT's planned programme of remedial work to address a number of issues of concern identified through internal audit's work. OFT continued to make efforts to improve control in financial management. During the year there were 3 audits undertaken explicitly on financial areas and a further 3 over the implementation of the new accounting system. There were 16 audits in total; of these 13 received substantial assurance. Limited assurance was given over reviews of asset management, the design phase of the new accounting system and the design of the registration system for the new Anti-Money Laundering Regulations scheme. The latter two audits were undertaken during the development of these projects and therefore provided an opportunity to identify and resolve certain control issues in the design of the systems and processes before the go-live dates. The issues raised have now all largely been addressed. The asset management audit resulted in a comprehensive review and clean-up of the data in the asset registers and this was complete by year-end. A programme of track and trace audits and automated purchase ordering systems have been committed to by management to further strengthen control ongoing.

In 2008-09 OFT sustained a loss of £246,397.50 arising from a control weakness in Accounts Payable subsequently rectified, reported in the Accounts and in the Statement on Internal Control. A former member of staff subsequently pleaded guilty to making a false representation to make gain and in March 2010 was given a custodial sentence. OFT is seeking to recover the loss through a Confiscation Order.



In April 2010, OFT introduced a new accounting system as part of a wider integrated back-office system. This will enable improved back office effectiveness and efficiency. Some initial problems were encountered when the system went live. However, the problems are being addressed through the concerted efforts of the project team responsible for the system implementation and staff within the finance team.

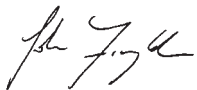
### **Internal Audit**

The previous contract for provision of internal audit services expired in March 2010. OFT established a four-year framework agreement with a small group of other public bodies and held a competitive tender for the provision of internal audit services. PriceWaterhouseCoopers were subsequently appointed on 1 April 2010. We are managing the handover of relevant documents from the former internal auditors to PriceWaterhouseCoopers.

Prior to that, OFT's internal audit function was provided by Chiene & Tait, under the direction of an in-house Head of Internal Audit, whose role remains unchanged. The function operated in accordance with the criteria laid down in Government Internal Audit standards.

### **Internal audit opinion**

The Head of Internal Audit has given me substantial assurance that there is basically a sound system of internal control, designed to meet OFT's objectives and that controls are applied consistently. During the year some weaknesses in control and instance of non-compliance were identified, which could put the achievement of some OFT objectives at risk. These instances were, in general, isolated to specific activities, functions or departments and are not regarded as being systemic in nature.



### **John Fingleton**

Chief Executive and Accounting Officer  
14 July 2010

## 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 (OFT) for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the Statement of Operating Costs by Departmental Strategic Objectives 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 the financial statements in accordance with applicable law and 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 OFT's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by OFT; and the overall presentation of the financial statements.

In addition, 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 statements conform to the authorities which govern them.

### Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions 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 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, changes in taxpayers' equity and cash flows 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.
- the information given in The Board and the Operating and Financial Review within 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
- 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 Statement on Internal Control 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

15 July 2010

## Statement of Parliamentary Supply

### Summary of Resource Outturn 2009-10

2009-10							2008-09	
Estimate			Outturn				Outturn	
Gross expenditure	A-in-A	Net total	Gross expenditure	A-in-A	Net total	Net total outturn compared with Estimate saving/ (excess)		
£000	£000	£000	£000	£000	£000	£000	£000	
<b>RFR : Advancing and safeguarding the economic interests of UK consumers</b>								
Total								
Resources (note 3)	81,071	15,000	66,071	77,182	13,963	63,219	2,852	57,956
<b>Net cash requirement 2009-10</b>								
Net Cash Requirement (note 5)								
	-	-	65,244	-	-	61,016	4,228	63,271

### Summary of income payable to the Consolidated Fund

In addition to appropriations-in-aid, the following income relates to the OFT and is payable to the Consolidated Fund (cash receipts being shown in italics):

	2009-10 Forecast			2009-10 Outturn	
	Note	Income	Receipts	Income	Receipts
		£000	£000	£000	£000
<b>Total</b>	6	1,000	<i>1,000</i>	50,534	<i>34,803</i>

An explanation of the variance between Estimate and Outturn is given in the Operating and Financial Review. The notes on pages 66 to 86 form part of these accounts.

## Operating Cost Statement

for the year ended 31 March 2010

		2009-10	2008-09 Re-stated
	Note	£000	£000
<b>Administration Costs:</b> Request for Resources 1			
Staff Costs	10	37,328	36,654
Other Administration Costs	11	38,769	32,713
Operating Income	13	(16,482)	(14,049)
<b>Programme Costs:</b> Request for Resources 1			
Expenditure	12	1,085	796
<b>Net Operating Cost</b>	<b>4</b>	<b>60,700</b>	<b>56,114</b>

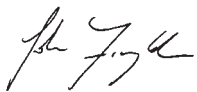
All operations are continuing. Figures for 2008-09 have been re-stated in line with International Financial Reporting Standards.

The notes on pages 66 to 86 form part of these accounts.

## Statement of Financial Position

as at 31 March 2010

	Note	31 March 2010 £000	31 March 2009 Re-stated £000	1 April 2008 Re-stated £000
<b>Non-current assets:</b>				
Property, plant and equipment	14	6,378	6,719	7,137
Intangible assets	15	508	358	235
<b>Total non-current assets</b>		<b>6,886</b>	<b>7,077</b>	<b>7,372</b>
<b>Current assets:</b>				
Trade and other receivables	18	19,446	2,899	4,980
Cash and cash equivalents	19	-	892	384
<b>Total current assets</b>		<b>19,446</b>	<b>3,791</b>	<b>5,364</b>
<b>Total assets</b>		<b>26,332</b>	<b>10,868</b>	<b>12,736</b>
<b>Current liabilities:</b>				
Cash and cash equivalents	19	(827)	-	-
Trade and other payables	20	(26,110)	(9,848)	(11,975)
<b>Total current liabilities</b>		<b>(26,937)</b>	<b>(9,848)</b>	<b>(11,975)</b>
<b>Total assets less current liabilities</b>		<b>(605)</b>	<b>1,020</b>	<b>761</b>
<b>Non-current liabilities:</b>				
Provisions	21	(3,214)	(2,281)	(7,276)
<b>Total non-current liabilities</b>		<b>(3,214)</b>	<b>(2,281)</b>	<b>(7,276)</b>
<b>Assets less liabilities</b>		<b>(3,819)</b>	<b>(1,261)</b>	<b>(6,515)</b>
<b>Taxpayers' Equity:</b>				
General Fund		(3,895)	(2,245)	(7,501)
Revaluation reserve		76	975	975
Donated asset reserve		-	9	11
<b>Total taxpayers' equity</b>		<b>(3,819)</b>	<b>(1,261)</b>	<b>(6,515)</b>



**John Fingleton**

Chief Executive and Accounting Officer  
14 July 2010

The notes on pages 66 to 86 form part of these accounts.

## Statement of Cash Flows

for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
<b>Cash flows from operating activities:</b>			
Net operating cost		(60,700)	(56,114)
Adjustment for non-cash transactions	11,12	3,680	(771)
(Increase)/decrease in trade and other receivables		(16,547)	2,081
Less movements in receivables relating to items not passing through the OCS		17,018	(1,148)
Increase/(decrease) in trade and other payables		16,262	(2,127)
Less movements in payables relating to items not passing through the OCS		(15,299)	(272)
Use of provisions	21	(384)	(1,962)
<b>Net outflow from operating activities</b>		<b>(55,970)</b>	<b>(60,313)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	14	(2,238)	(1,697)
Purchase of intangible assets	15	(289)	(244)
<b>Net cash outflow from investing activities</b>		<b>(2,527)</b>	<b>(1,941)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund – current year		59,285	63,716
From the Consolidated Fund – prior year		-	1,148
<b>Net financing</b>		<b>59,285</b>	<b>64,864</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated fund</b>			
		<b>788</b>	<b>2,610</b>
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		32,284	-
Payments of amounts due to the Consolidated Fund		(34,791)	(2,102)
<b>Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>			
		<b>(1,719)</b>	<b>508</b>
Cash and cash equivalents at the beginning of the period		892	384
Cash and cash equivalents at the end of the period		(827)	892

The notes on pages 66 to 86 form part of these accounts.

## Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

		General Fund	Revaluation Reserve	Donated Asset Reserve	Total Reserves
	Note	£000	£000	£000	£000
<b>Balance at 31 March 2008</b>		<b>(6,477)</b>	<b>975</b>	<b>11</b>	<b>(5,491)</b>
Effect of changes under International Financial Reporting Standards		(1,024)	-	-	(1,024)
<b>Restated balance at 1 April 2008</b>		<b>(7,501)</b>	<b>975</b>	<b>11</b>	<b>(6,515)</b>
<b>Changes in taxpayers' equity for 2008-09</b>					
Release of reserves to the operating cost statement		-	-	(2)	(2)
Non-cash charges – cost of capital	11	(116)	-	-	(116)
Non-cash charges – auditor's remuneration	11	65	-	-	65
Actuarial gain		80	-	-	80
Net operating cost for the year		(56,114)	-	-	(56,114)
<b>Total recognised income and expense for 2008-09</b>		<b>(56,085)</b>	<b>-</b>	<b>(2)</b>	<b>(56,087)</b>
Net Parliamentary Funding – drawn down		63,716	-	-	63,716
Supply payable adjustment		(445)	-	-	(445)
CFERs payable to the Consolidated Fund		(1,930)	-	-	(1,930)
		<b>61,341</b>	<b>-</b>	<b>-</b>	<b>61,341</b>
<b>Balance at 31 March 2009</b>		<b>(2,245)</b>	<b>975</b>	<b>9</b>	<b>(1,261)</b>
<b>Changes in taxpayers' equity for 2009-10</b>					
Release of reserves to the operating cost statement		-	-	(9)	(9)
Transfer between reserves		899	(899)	-	-
Non-cash charges – cost of capital	11	(68)	-	-	(68)
Non-cash charges – auditor's remuneration	11	71	-	-	71
Actuarial loss		(349)	-	-	(349)
Net operating cost for the year		(60,700)	-	-	(60,700)
<b>Total recognised income and expense for 2009-10</b>		<b>(60,147)</b>	<b>(899)</b>	<b>(9)</b>	<b>(61,055)</b>
Net Parliamentary Funding – drawn down		59,285	-	-	59,285
Net Parliamentary Funding – deemed		444	-	-	444
Supply receivable adjustment		1,287	-	-	1,287
CFERs payable to the Consolidated Fund		(2,519)	-	-	(2,519)
		<b>58,497</b>	<b>-</b>	<b>-</b>	<b>58,497</b>
<b>Balance at 31 March 2010</b>		<b>(3,895)</b>	<b>76</b>	<b>-</b>	<b>(3,819)</b>

The notes on pages 66 to 86 form part of these accounts.



## Statement of Operating Costs by Departmental Strategic Objectives

for the year ended 31 March 2010

Request for Resources: Advancing and safeguarding the economic interests of UK consumers

	2009-10			2008-09		
	Gross expenditure	Income	Net expenditure	Gross expenditure	Income	Net expenditure
	£000	£000	£000	£000	£000	£000
Objective 1	26,145	(13,474)	12,671	24,332	(11,520)	12,812
Objective 2	7,022	-	7,022	7,390	(31)	7,359
Objective 3	22,407	(1,881)	20,526	22,034	(2,348)	19,686
Objective 4	21,608	(1,127)	20,481	16,407	(150)	16,257
<b>Totals</b>	<b>77,182</b>	<b>(16,482)</b>	<b>60,700</b>	<b>70,163</b>	<b>(14,049)</b>	<b>56,114</b>

Figures for 2008-09 have been re-stated in line with International Financial Reporting Standards.

Our Methodology for preparing this statement is set out in accounting policy note 1.22.

### Strategic Objective 1 – Deliver high-impact outcomes

To make markets work well for consumers by delivering high impact work efficiently, focused on priorities, and spanning the OFT's enforcement and non-enforcement functions.

### Strategic Objective 2 – Centre of intelligence and excellence

To monitor markets proactively, systematically and transparently; to evaluate the impact of our work and use this evaluation to inform strategy and future work; to provide effective education and advice for consumers, including through Consumer Direct; and to promote innovative approaches in our work.

### Strategic Objective 3 – Work in partnership

To work with our partners to better achieve our other objectives.

### Strategic Objective 4 – Develop OFT as an organisation

Our key asset is the diversity of the skills, expertise and experience of our staff; our ability to change markets and deliver excellent outcomes for the UK economy relies on investing in the skills and talent of our staff.

The notes on pages 66 to 86 form part of these accounts.

## Notes to the Resource Accounts

### 1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2009-10 *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. 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 two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Operating Cost by Departmental Strategic Objectives and supporting notes analyse the OFT's income and expenditure by the objectives agreed with HM Treasury.

#### IFRS 1 – First Time Adoption

IFRS 1 – First-time adoption of International Financial Reporting Standards allows entities adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the year of transition (i.e. 2009-10). The OFT elected not to take any exemptions.

#### 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 Operating Cost Statement 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 Operating Cost Statement 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, which in accordance with the FReM is treated as operating income.

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 Consolidated Fund Extra receipts

### **Competition Act 1998 (CA98) Penalties**

The CA98 confers responsibility on the OFT for the imposition and collection of penalties on undertakings where it is found that an agreement has infringed the Chapter I prohibition, or conduct has infringed the Chapter II prohibition, and that infringement has been committed intentionally or negligently. Penalties collected are paid into the Consolidated Fund.

The OFT has no beneficial interest in the imposition of CA98 penalties, thus it is not considered to be operating income and does not go through the Operating Cost Statement. The OFT is responsible for accounting for and collecting the CA98 penalties imposed and paying over the amounts received to the Consolidated Fund. Penalties are thus recognised in the Statement of Financial Position as a receivable once the period for making an appeal in respect of the penalty has expired and no appeal has been made or, where an appeal is made, once it has been determined. At the same time, a corresponding payable is raised to recognise the obligation for onward transmission.

## Impairment of receivables – CA98 Penalties

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 payable for onward transmission. The creation of this provision and any subsequent movement, or any write-offs which have not been previously provided for, do not register in the Operating Cost Statement.

### 1.9 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. Administration costs reflect the costs of running the OFT. Programme costs relate to litigation costs arising from OFT decisions. The classification of expenditure and income as administration or programme follows the definition of administration costs set by HM Treasury.

### 1.10 Capital charge

A charge, reflecting the cost of capital utilised by the OFT, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for donated assets, cash balances on non-interest bearing bank accounts and on balances with the Consolidated Fund, where the interest rate is nil.

### 1.11 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.

### 1.12 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. Income earned in excess of the approved level cannot be used in support of the OFT's activities and has to be paid over to the Consolidated Fund as excess Appropriations in Aid in accordance with Managing Public Money.

### 1.13 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.

### 1.14 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.

### 1.15 Pensions

Most past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described at Note 10. The defined benefit schemes are unfunded and non-contributory except in respect of dependants' benefits. 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 Director Generals, 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.

### 1.16 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.

### 1.17 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 of 2.2 per cent (2008-09: 2.2 per cent); where it is not significant estimated cash flows are not discounted.

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

### 1.18 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.

### 1.19 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.

### 1.20 Operating leases

Operating lease rentals are charged to the Operating Cost Statement in equal amounts over the lease term.

## 1.21 Financial Instruments

The OFT does not hold any complex financial instruments. The only financial instruments included in the accounts are receivables and payables (Notes 18 and 20). 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.

## 1.22 Statement of Parliamentary Supply and Statement of Net Operating Costs by Departmental Strategic Objectives

The information contained in the Statement of Parliamentary Supply and associated notes is based on the Request for Resources information that forms part of the parliamentary approval process.

Administration costs, programme costs and related receipts were attributed to the annual plan objectives for 2009-10. Capital is employed exclusively for administration purposes, therefore its distribution between objectives is not markedly different to that of the gross administration costs.

## 2 First-time adoption of IFRS

	General Fund	Revaluation reserve	Donated asset reserve
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Taxpayers' equity at 31 March 2009 under UK Generally Accepted Accounting Practice	(1,133)	975	9
<b>Adjustments for:</b>			
IAS 19 Employee Benefits – accrued untaken paid leave	(1,112)	-	-
Taxpayers' equity at 1 April 2009 under International Financial Reporting Standards	<b>(2,245)</b>	<b>975</b>	<b>9</b>
			<b>£000</b>
Net operating cost for 2008-09 under UK Generally Accepted Accounting Practice			56,026
<b>Adjustments for:</b>			
IAS 19 Employee Benefits - movement in accrued untaken paid leave – 2008-09			88
Net operating cost for 2008-09 under International Financial Reporting Standards			<b>56,114</b>

The OFT held no cash equivalents at 31 March 2009.

## 3 Analysis of net resource outturn by section

	2009-10							2008-09
	Admin	Other current	Gross resource expenditure	A-in-A	Net total	Estimate	Net total outturn compared to estimate	Prior-year outturn
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Resource Outturn	76,097	1,085	77,182	(13,963)	63,219	66,071	2,852	57,956

The OFT has only one Request for Resources for control purposes and Parliamentary approval.

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

### 4.1 Reconciliation of net resource outturn to net operating cost

		2009-10	2008-09
	Note	£000	£000
Net Resource Outturn	3	63,219	57,956
Non-Supply income (CFER)	6	(2,519)	(1,930)
Impact of conversion to International Financial Reporting Standards	2	-	88
<b>Net operating cost</b>		<b>60,700</b>	<b>56,114</b>

### 4.2 Outturn against final Administration Budget

	2009-10		2008-09
	Budget	Outturn	Outturn
	£000	£000	£000
Gross Administration Budget	79,157	76,097	69,279
Income allowable against the Administration Budget	(15,000)	(13,963)	(12,119)
<b>Net outturn against final Administration Budget</b>	<b>64,157</b>	<b>62,134</b>	<b>57,160</b>

## 5 Reconciliation of net resource outturn to cash requirement

	Estimate	Outturn	Net total outturn compared with Estimate saving/(excess)	
	£000	£000	£000	
Resource Outturn	3	66,071	63,219	2,852
<b>Capital:</b>				
Acquisition of non-current assets	14,15	1,781	2,527	(746)
Investments		-	-	-
<b>Non-operating A-in-A:</b>				
Proceeds of non-current asset disposals		-	-	-
<b>Accruals adjustments:</b>				
Non-cash items	11	(2,608)	(3,680)	1,072
Changes in working capital other than cash		-	(1,434)	1,434
Changes in payables falling due after more than one year		-	-	-
Use of provisions	21	-	384	(384)
<b>Net Cash Requirement</b>		<b>65,244</b>	<b>61,016</b>	<b>4,228</b>

During the year OFT applied to HM Treasury to move £947,000 from resource to capital. This was agreed. The total net cash requirement was not altered, but the resource outturn budget was decreased by £947,000 and the capital budget was increased by the same amount.

## 6 Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the OFT and is payable to the Consolidated Fund (cash receipts being shown in italics):

	Note	Forecast 2009-10		Outturn 2009-10	
		Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts – excess A-in-A		-	-	-	-
Other operating income and receipts not classified as A-in-A	7	1,000	1,000	2,519	2,519
Other amounts collectable on behalf of the Consolidated Fund		-	-	48,015	32,284
<b>Total income payable to the Consolidated Fund</b>		<b>1,000</b>	<b>1,000</b>	<b>50,534</b>	<b>34,803</b>

## 7 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2009-10 £000	2008-09 £000
Operating income	13	16,482	14,049
Income authorised to be appropriated-in-aid		(13,963)	(12,119)
<b>Operating income payable to the Consolidated Fund</b>	6	<b>2,519</b>	<b>1,930</b>

## 8 Non-operating income – excess A-in-A

The OFT does not have any non-operating income that is in excess of Appropriations-in-Aid.

## 9 Non-operating income not classified as A-in-A

The OFT does not have any non-operating income not classified as Appropriations-in-Aid.

## 10 Staff numbers and related costs

Staff costs comprise:

	2009-10			2008-09 Re-stated
	Total £000	Permanently employed staff £000	Others £000	Total £000
Wages and salaries	30,362	26,078	4,284	29,603
Social security costs	2,351	2,351	-	2,261
Pension costs	4,965	4,965	-	5,135
<b>Sub-total</b>	<b>37,678</b>	<b>33,394</b>	<b>4,284</b>	<b>36,999</b>
Less recoveries in respect of outward secondments	(350)	(350)	-	(345)
<b>Total net costs*</b>	<b>37,328</b>	<b>33,044</b>	<b>4,284</b>	<b>36,654</b>

\* 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 resource accounts of the Cabinet Office: Civil superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

For 2009-10, employer contributions of £4,964,678 were payable to the PCSPS (2008-09: £5,135,201) 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. From 2010-11, the rates will be in the range 16.7 per cent to 24.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 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 £120,903 (2008-09 re-stated: £62,493) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 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 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 (2008-09: nil). Employer contributions prepaid at that date were nil (2008-09: nil).

There were no retirements on the grounds of ill-health (2008-09: nil).

### Number of persons employed

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

	2009-10			2008-09
	Total	Permanent staff	Others	Total
Strategic Objective 1	415	359	56	420
Strategic Objective 2	99	97	2	96
Strategic Objective 3	60	50	10	78
Strategic Objective 4	109	91	18	103
<b>Total</b>	<b>683</b>	<b>597</b>	<b>86</b>	<b>697</b>

The 2008-09 figures have been re-stated to conform with the requirement to disclose employee numbers by Departmental Strategic Objectives. Previously the figures were disclosed according to the OFT's internal reporting structure, rather than by Objectives. See Statement of Operating Costs by Departmental Strategic Objectives for details of Strategic Objectives one to four in the table above.

## 11 Other Administration Costs

	2009-10		2008-09	
	£000	£000	£000	£000
<b>Rentals under operating leases:</b>				
Hire of plant and machinery	67		105	
Other operating leases	3,878		4,062	
		3,945		4,167
Research expenditure		1,227		825
<b>Non-cash items:</b>				
Depreciation of non-current assets -				
Tangible non-current assets (note 14)	2,088		2,112	
Intangible non-current assets (note 15)	112		121	
Released from the donated asset reserve	(9)		(2)	
Loss on disposal of non-current assets	8		2	
Impairment of non-current assets	510		-	
Cost of capital charge	(68)		(116)	
Auditor's remuneration and expenses	71		65	
Provisions -				
Amounts provided for in year	1,123		475	
Amounts not required written back	(155)		(3,288)	
<b>Total non-cash costs</b>		3,680		(631)
<b>Other expenditure:</b>				
Consumer Direct Contact Centres	11,489		12,202	
Rates	1,135		1,255	
Professional services	2,200		1,887	
Training	1,031		929	
Publicity and campaigns	3,627		2,460	
Maintenance	515		344	
Utilities	527		606	
Travel and subsistence	482		410	
Telecoms	564		615	
IT (including maintenance)	3,901		2,499	
Publications	357		407	
Recruitment	1,479		1,228	
Other staff costs	443		910	
Other expenditure	2,167		2,449	
Provision for impairment of trade receivables	-		151	
<b>Total other expenditure</b>		29,917		28,352
		<b>38,769</b>		<b>32,713</b>

The auditor's remuneration and expenses reflects the notional fee for the NAO statutory audit, which comprises three elements: the accounts audit fee of £60,000 (2008-09: £60,000), the audit of the Whole of Government Accounts return £4,000 (2008-09: nil) and the IFRS re-statement exercise fee of £7,000 (2008-09: £5,200). The OFT did not purchase any non-audit services.

**12 Programme Costs**

	2009-10	2008-09
	£000	£000
Litigation costs	1,085	936
Provision: Amounts not required written-back (non-cash)	-	(140)
<b>Total programme expenditure</b>	<b>1,085</b>	<b>796</b>

**13 Income****13 (a) Analysis of operating income**

	2009-10	2008-09
	£000	£000
<b>Appropriated-in-Aid</b>		
Fees for the administration of the Consumer Credit Act 1974	10,178	8,993
Fees for the administration of Money Laundering Regulations 2007	1,216	-
Proceeds of Crime Act income	316	-
Appeal costs reimbursed	308	669
Contribution from BIS for Consumer Direct development	1,881	2,348
Other income	64	109
<b>Total Appropriated-in-Aid</b>	<b>13,963</b>	<b>12,119</b>
<b>Payable to the Consolidated Fund</b>		
Merger fees	1,710	1,830
Other income	809	100
<b>Total operating income</b>	<b>16,482</b>	<b>14,049</b>
Of which: Administration income	16,482	14,049

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 2009-10 was £1,844,480 (2008-09: £2,152,350), of which £1,706,180 was paid over to FOS during the year (2008-09: £1,936,950) and £168,300, which at the year-end was held in other creditors, was paid over in April 2010 (2008-09: £215,400). 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 2009-10 was £61,485 (2008-09: £71,745).

In July 2009 registration started for businesses supervised by the OFT under Money Laundering Regulations. The registration fees collected during 2009-10 amounted to £1,858,338, of which £633,000 has been carried forward to 2010-11 as a liability in the Statement of Financial Position and is included within 'Other payables' in note 20.1 (see also note 13(b)). A further £9,028 has been carried forward to 2010-11 as deferred income in respect of fees received for which registration was not completed by 31 March 2010.

Income from the Proceeds of Crime Act is an allocation of funds under the Government's Asset Recovery Incentivisation Scheme. Under the scheme, money is normally received by HM Courts Service, as a result of Confiscation Orders, which allow for the seizure and disposal of assets held by criminals. The income collected is then distributed between the Home Office, the Ministry of Justice and the relevant financial investigator and the prosecuting authority (for example, OFT). The money OFT receives is used to further improve enforcement capabilities.

### 13 (b) 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.

2009-10					
	Gross cost	Income	(Surplus)/ shortfall	Actual recovery	Target recovery
	£000	£000	£000	%	%
Consumer Credit Licensing	10,129	10,239	(110)	101.1	100.0
Anti-Money Laundering	1,216	1,216	-	100.0	100.0

2008-09					
	Gross cost	Income	Shortfall	Actual recovery	Target recovery
	£000	£000	£000	%	%
Consumer Credit Licensing	9,090	8,993	97	98.9	100.0

Anti-Money Laundering (AML) did not come into effect until 2009-10 so there is no comparative information available. Fee levels for Consumer Credit Licensing (CCL) and AML are set to fully recover the cost of the service provided. Minor fluctuations may occur between the target recovery and actual recovery achieved, normally due to timing differences caused by workload scheduling.

In the case of AML, being a new service it was difficult to predict the volume of potential registrations by the supervised population and the cost of administering the scheme. In the event income received was higher than predicted and costs lower, resulting in a surplus of £633,000. On 31 March OFT announced its intention to offer a refund to all firms who had registered during 2009-10 and contributed to the surplus. This refund would be made by way of a deduction from their first annual fee, which is payable in autumn 2010. As a consequence the OFT has reduced its income for 2009-10 and recognised a liability to its supervised population in 'Other payables' in note 20.1.

## 14 Property, plant and equipment

Current year:

	Leasehold Improvements	Information Technology	Furniture and Fittings	Assets under construction	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation:</b>					
At 1 April 2009	3,236	17,910	2,583	367	24,096
Additions	-	631	-	1,607	2,238
Disposals	(21)	(5,109)	(1,906)	-	(7,036)
At 31 March 2010	3,215	13,432	677	1,974	19,298
<b>Depreciation:</b>					
At 1 April 2009	3,141	12,350	1,886	-	17,377
Charged in year	92	1,700	296	-	2,088
Disposals	(18)	(4,972)	(1,555)	-	(6,545)
At 31 March 2010	3,215	9,078	627	-	12,920
<b>Net book value at 31 March 2010</b>	<b>-</b>	<b>4,354</b>	<b>50</b>	<b>1,974</b>	<b>6,378</b>
<b>Net book value at 31 March 2009</b>	<b>95</b>	<b>5,560</b>	<b>697</b>	<b>367</b>	<b>6,719</b>

### 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. A new lease came into force on 29 September 2009, therefore, as this asset related to the previous lease, it was written down to zero.

Prior year:

	Leasehold Improvements	Information Technology	Furniture and Fittings	Assets under construction	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation:</b>					
At 1 April 2008	3,219	16,620	2,573	-	22,412
Additions	17	1,292	21	367	1,697
Disposals	-	(2)	(11)	-	(13)
At 31 March 2009	3,236	17,910	2,583	367	24,096
<b>Depreciation:</b>					
At 1 April 2008	2,833	10,826	1,616	-	15,275
Charged in year	308	1,526	278	-	2,112
Disposals	-	(2)	(8)	-	(10)
At 31 March 2009	3,141	12,350	1,886	-	17,377
<b>Net book value at 31 March 2009</b>	<b>95</b>	<b>5,560</b>	<b>697</b>	<b>367</b>	<b>6,719</b>
<b>Net book value at 1 April 2008</b>	<b>386</b>	<b>5,794</b>	<b>957</b>	<b>-</b>	<b>7,137</b>

**15 Intangible Assets**

Current year:

	Software Licences	Total
	<b>£000</b>	<b>£000</b>
<b>Cost or valuation:</b>		
At 1 April 2009	1,080	1,080
Additions	289	289
Disposals	(59)	(59)
At 31 March 2010	1,310	1,310
<b>Amortisation:</b>		
At 1 April 2009	722	722
Charged in year	112	112
Disposals	(32)	(32)
At 31 March 2010	802	802
<b>Net book value at 31 March 2010</b>	<b>508</b>	<b>508</b>
<b>Net book value at 31 March 2009</b>	<b>358</b>	<b>358</b>

Prior year:

	Software Licences	Total
	<b>£000</b>	<b>£000</b>
<b>Cost or valuation:</b>		
At 1 April 2008	836	836
Additions	244	244
At 31 March 2009	1,080	1,080
<b>Amortisation:</b>		
At 1 April 2008	601	601
Charged in year	121	121
At 31 March 2009	722	722
<b>Net book value at 31 March 2009</b>	<b>358</b>	<b>358</b>
<b>Net book value at 1 April 2008</b>	<b>235</b>	<b>235</b>

## 16 Impairments

A complete review of the non-current assets was carried out during 2009-10. As a result, a number of non-current assets were removed from the Asset Register as it was found their treatment was not wholly consistent with the capitalisation policy. The net book value of these assets amounted to £510,000 and this amount was charged to the Operating Cost Statement with no movement on Reserves (see note 11). As a result, the asset register now reflects only items which conform to the capitalisation policy and are still in use. The number of items removed from the register through this exercise was approximately 4,500, but these are still tracked via an inventory schedule.

## 17 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.

## 18 Trade receivables and other current assets

### 18.1 Analysis by type

	2009-10	2008-09
<b>Amounts falling due within one year:</b>	<b>£000</b>	<b>£000</b>
Trade receivables	479	435
Deposits and advances	114	141
Other receivables	21	197
VAT	1,307	1,754
Amounts due from the Consolidated Fund in respect of Supply	1,287	-
Prepayments and accrued income	420	285
Penalties outstanding (see 18.3)	15,818	87
<b>Total</b>	<b>19,446</b>	<b>2,899</b>

### 18.2 Intra-Government balances

	2009-10	2008-09
<b>Amounts falling due within one year:</b>	<b>£000</b>	<b>£000</b>
Balances with other central government bodies	3,053	2,190
Balances with local authorities	7	176
Balances with public corporations and trading funds	-	-
<b>Sub-total intra-government balances</b>	<b>3,060</b>	<b>2,366</b>
Balances with bodies external to government	16,386	533
<b>Total</b>	<b>19,446</b>	<b>2,899</b>

### 18.3 Penalties outstanding

OFT is responsible for collecting penalties imposed under the Competition Act 1998. As per accounting policy 1.8, the balance outstanding is analysed below:

	CA98 penalties £000
At 1 April 2009	87
Generated in year	48,015
Collections	(32,284)
Uncollectable item written-off	-
<b>At 31 March 2010</b>	<b>15,818</b>

The penalties generated during the year and the collections relate to the Construction Industry Bid Rigging and Construction Recruitment forum cases. Companies penalised were offered the option of paying their penalty over a three year period, with interest added. A number of companies chose to settle their penalty outright and a similar number took up the payment terms option, which has led to the large increase in outstanding penalties. A further £3,882,577 is due from companies that were either in administration, being liquidated, or dissolved at the time the penalties were imposed, or have moved into those situations since. Whilst OFT is still pursuing recovery of the outstanding debts from these companies, a provision for impairment has been recognised for £3,882,577 in accordance with note 1.8.

In addition to the items included in the above table, a further £117,359,369 has not been recognised in these accounts due to appeals by the companies involved (see note 1.8).

### 19 Cash at bank and in hand

	2009-10 £000	2008-09 £000
Balance at 1 April	892	384
Net change in cash balances	(1,719)	508
<b>Balance at 31 March</b>	<b>(827)</b>	<b>892</b>
<b>The following balances at 31 March were held at:</b>		
Office of HM Paymaster General	(973)	668
Cash in hand and locally banked receipts	146	224
<b>Balance at 31 March</b>	<b>(827)</b>	<b>892</b>

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



## 20. Trade payables and other current liabilities

### 20.1 Analysis by type

	2009-10		2008-09	
	£000	£000	£000	£000
<b>Amounts falling due within one year</b>				
Taxation and social security		894		734
Trade payables		2,439		2,709
Other payables		1,330		775
Accruals and deferred income		5,064		4,546
Amounts issued from the Consolidated Fund for supply but not spent at the year end		-		445
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:				
- received	460		447	
- receivable	15,923	16,383	192	639
<b>Total</b>		<b>26,110</b>		<b>9,848</b>

Other payables includes an amount of £633,000 relating to fees for the administration of Money Laundering Regulations 2007 (see note 13 (a)).

The amount receivable and payable to the Consolidated Fund relates primarily to the penalties imposed under the Competition Act 1998 in the Construction Industry Bid Rigging Case (see note 18.3).

### 20.2 Deferred income

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

	2009-10	2008-09
	£000	£000
Fees for administration of the Consumer Credit Act 1974	296	241
Other income received in advance	73	211
<b>Total deferred income</b>	<b>369</b>	<b>452</b>

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

### 20.3 Intra-Government balances

	2009-10	2008-09
	£000	£000
<b>Amounts falling due within one year</b>		
Balances with other central government bodies	17,592	2,219
Balances with local authorities	48	14
Balances with public corporations and trading funds	-	-
<b>Sub-total intra-government balances</b>	<b>17,640</b>	<b>2,233</b>
Balances with bodies external to government	8,470	7,615
<b>Total</b>	<b>26,110</b>	<b>9,848</b>

## 21. Provisions for liabilities and charges (see also notes 1.16 – 1.17)

	Early Departure Provision	Building Refurbishment Provision	Pension Provision	Total
	£000	£000	£000	£000
Balance at 1 April 2009	620	250	1,411	2,281
Provided in year	1,040	-	432	1,472
Provisions not required, written-back	-	(155)	-	(155)
Provisions utilised in year	(201)	(95)	(88)	(384)
<b>Balance at 31 March 2010</b>	<b>1,459</b>	<b>-</b>	<b>1,755</b>	<b>3,214</b>

### Analysis of expected timing of cash flows

	Early Departure Provision	Building Refurbishment Provision	Pension Provision	Total
	£000	£000	£000	£000
In the remainder of the Spending Review period (to 2011)	827	-	90	917
Between 2012 and 2016	540	-	361	901
Between 2017 and 2021	92	-	451	543
Thereafter	-	-	853	853
<b>Balance at 31 March 2010</b>	<b>1,459</b>	<b>-</b>	<b>1,755</b>	<b>3,214</b>

a) 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 discounted by the Treasury discount rate of 2.2 per cent in real terms. There were nine new early retirees during the year (2008-09: five)

b) The building refurbishment provision was set up in 2007-08 to cover refurbishment and rationalisation of space costs expected to be incurred during 2008-09. This reflected the need to comply with new lease agreement and Treasury requirements specified in negotiations relating to the signing of the new lease, which runs from September 2009 for 14 years. At the end of 2008-09 an amount of £250,000 was carried forward into 2009-10 to cover refurbishment work still to be completed. During the course of 2009-10 a total of £94,735 was charged against the provision and the unutilised balance of £155,265 was released from the provision account.

c) The pension provision is unfunded, with benefits being paid as they fall due and guaranteed by OFT for the previous Chairman and Directors General. There is no fund and therefore no surplus or deficit. An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2010.

The financial assumptions used in the calculation of the liability as at 31 March 2010 are as follows:

- the gross rate of increase in salaries is 4.29 per cent per annum (2008-09: 4.29 per cent per annum)
- the gross rate used to discount scheme liabilities is 4.60 per cent per annum (2008-09: 6.04 per cent per annum)
- the gross rate of increase for pensions in payment and deferred pensions is 2.75 per cent per annum, (2008-09: 2.75 per cent per annum)
- in nominal terms, these assumptions imply price inflation of 2.75 per cent per annum (2008-09: 2.75 per cent per annum)

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

	<b>£000</b>
Overnight increase in liabilities (change in real return)	-
Current service cost (net of employee contributions)	-
Employee contributions	-
Interest cost	83
Actuarial loss	349
	<b>432</b>
Benefits paid	(88)
Increase in provision	<b>344</b>

## 22. Notes to the Statement of Operating Costs by Departmental Strategic Objectives

22.1 Other current expenditure has been allocated as follows

	2009-10	2008-09
	<b>£000</b>	<b>£000</b>
Objective 1 – Deliver high impact outcomes	1,085	796
Objective 2 – Centre of intelligence and excellence	-	-
Objective 3 – Work in partnership	-	-
Objective 4 – Develop OFT as an organisation	-	-
<b>Total</b>	<b>1,085</b>	<b>796</b>

22.2 Assets employed

Assets employed includes all non-current assets plus all receivables with the exception of the amount due from CA98 penalties (see note 18.3). The OFT's operating costs are predominantly administration in nature, with programme expenditure, which is ring-fenced, being incurred intermittently. Therefore, assets employed are allocated to objectives in the same ratio as gross operating costs.

	2009-10	2008-09
	<b>£000</b>	<b>£000</b>
Objective 1 – Deliver high impact outcomes	3,562	3,769
Objective 2 – Centre of intelligence and excellence	957	1,145
Objective 3 – Work in partnership	3,052	3,413
Objective 4 – Develop OFT as an organisation	2,943	2,541
<b>Total</b>	<b>10,514</b>	<b>10,868</b>

## 23. Capital commitments

	2009-10	2008-09
	£000	£000
Contracted capital commitments at 31 March 2010 not otherwise included in these financial statements:		
Property, plant and equipment	88	924
Intangible assets	-	-

## 24. Commitments under leases

### 24.1 Operating leases

	2009-10		2008-09	
	Buildings	Other	Buildings	Other
	£000	£000	£000	£000
At 31 March 2010 obligations under operating leases for the following periods comprise:				
Not later than one year	3,792	-	3,943	25
Later than one year and not later than five years	16,041	11	15,688	11
Later than five years	39,205	-	43,350	-
<b>Total</b>	<b>59,038</b>	<b>11</b>	<b>62,981</b>	<b>36</b>

### 24.2 Finance leases

The OFT does not have any finance lease commitments.

## 25. Other financial commitments

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

### 25.1 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.

## 26. 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. Other than amounts that are already provided for, any liabilities are too remote and cannot be reasonably quantified.

## 27. 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 2009-10 there were no cases in excess of £250,000.

### 27.1 Losses statement

2009-10		2008-09	
Cases	£000	Cases	£000
-		4	
<b>Total</b>	-		<b>101</b>

### 27.2 Special payments

2009-10		2008-09	
Cases	£000	Cases	£000
4		3	
<b>Total</b>	<b>240</b>		<b>101</b>

## 28. 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 and the Central Office of Information. None of the Board Members, key managerial staff or other related parties has undertaken any material transactions with the OFT during the year.

## 29. 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.

In early April 2010 OFT issued an infringement decision under the Competition Act 1998 against certain tobacco manufacturers and retailers over retail pricing practices. The penalty amounted to £224,311,281 and was imposed on two tobacco manufacturers and ten retailers, one of which was exempted from any penalty under the OFT's leniency programme for alerting the OFT to the infringements. In mid-June, following expiration of the two-month period in which appeals may be lodged, a total of £58,350,790 was paid by four parties and a further £165,960,491 remained outstanding, pending the outcome of appeals by seven parties. None of the above figures is included in the financial statements for 2009-10 as they occurred after the end of the reporting period.

On 17 June 2010 OFT announced the appointment of two new Executive Directors: Clive Maxwell, who will lead the work of the Services, Goods and Mergers groups; and Robert Laslett, who will lead the Cartels, Infrastructure and Consumer Market groups.

It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the by-analogy pension scheme for the former Chairman and Directors General and on the pension liabilities disclosed within the Remuneration Report.

In June 2010 the Government announced the setting up of a new Economic Crime Agency. At present it is not known how much of an impact this will have on OFT but it is not expected to have an effect on OFT's going concern status.



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