



Annual Report and Resource Accounts 2007–08

This edition of the OFT's Annual Report and Resource Accounts covers the 12-month period from 1 April 2007 to 31 March 2008.

Presented to Parliament in pursuance of section 4(3) of the Enterprise Act 2002
and section 6(4) of the Government Resources and Accounts Act 2000

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Chairman's statement

This has been a year of significant developments for the OFT, which has seen us carry out groundbreaking work across many areas. On the consumer side we took forward our test case and market study on bank overdraft charges and we have conducted some high profile awareness campaigns, including Scams Awareness Month and the Save Xmas campaign. I have been particularly struck by the breadth and quality of our partners in this work – particularly Local Authority Trading Standards Services and Citizens Advice, as well as a wide variety of charities and community groups across the UK. On the competition side, we pursued a number of significant infringement cases and, in a landmark case, brought our first criminal cartel prosecution.



Innovative solutions

As a result of our commitment to finding innovative solutions, we have had a number of successes in the settlements we reached this year. For example, our work with supermarkets and dairy processors over price collusion in dairy products involved our first large scale settlement involving multiple parties. It demonstrates that where parties are willing to cooperate, the amount of time and resources a case takes can be significantly reduced for all parties involved. For some investigations, this is a much better solution for business as well as for the OFT than fighting cases which may otherwise take several years to resolve.

Another significant innovation last year was the introduction, on a trial basis, of an informant reward scheme for people who provide information on the existence of cartels. We are the only European authority to do this, and we will be evaluating the impact carefully.

Facilitating private actions

Our initiative on private redress is an example of the OFT at its best. This is an issue that needed to be addressed because the vision of an effective means of redress for breaches in competition law, as contemplated in the 2001 White Paper and the Enterprise Act 2002, was not being realised in practice and it had become clear that there are both procedural and

costs barriers which discourage people from bringing actions. So we arranged a productive seminar with a number of experienced practitioners from around the world, prepared proposals for consultation, held a public workshop following that consultation, and then developed and published recommendations to government for changes in the law, which they are now considering.

Streamlining our merger procedures

During the year we completely reviewed and revised our procedural guidance for dealing with mergers, which was published for consultation at the end of March. We also consulted on and finalised our guidance on the de minimis thresholds for mergers, taking many very small mergers out of the scope of the merger regime.

Preparing for new responsibilities

During the year we devoted substantial time and resources to preparation for our new and broader responsibilities under the Consumer Credit Act 2006, and our new powers relating to money laundering.

Working with our local partners

Our relationships with partner organisations have continued to bring successful outcomes. Together with Local Authority Trading Standards Services we launched the successful Programme for Joint Action. Like all our partnerships, it is very much a two-way process. It is clear, for example, that while we are training them in relation to the use of civil powers under new consumer protection regulations, we can learn from their extensive criminal enforcement expertise.

Engaging in the nations and across the UK

We have made a huge stride forward in just one year from opening our Scottish office and I have been particularly encouraged by productive discussions with ministers from the Scottish Government, and members of the Scottish Parliament. We have made a good start, but there is more work to do, particularly in fully understanding the dynamics of the Scottish economy and the specific issues the nation faces.

Our presence in Edinburgh has helped us to develop further our relationship with key partners including with the Scottish Consumer Council, with SCOTS, the society that represents trading standards officers in Scotland, and with COSLA, the body which represents local authorities in Scotland.

Local Authority Trading Standards Services across Wales have organised themselves on an effective basis for their nation. They have an excellent working relationship with Consumer Direct Wales, and we are working together to build a closer relationship with the Welsh Assembly Government.

During the course of the year, I visited most of the Consumer Direct contact centres and a number of Local Authority Trading Standards Services across the UK. It is really important to find out about the issues and problems people on the ground are facing – what we are doing, what we could be doing, and how we can work together.

Consumer Direct delivers a vital service to consumers, and research shows that it delivers high consumer satisfaction, as well as being a valuable source of intelligence for Local Authority Trading Standards Services and ourselves.

Engaging internationally

As well as cooperating on individual cases, we are heavily involved in international fora. We regularly take part in, and often lead, discussions at the OECD Competition Committee on important topics, such as settlements, leniency, and cartel enforcement. We are on the steering committee of the International Competition Network (ICN), which comprises agencies from 102 countries, and we are particularly active in ICPEN, the international consumer protection organisation.

Again, we learn a great deal from other countries. We recently benefited from the experience of the Netherlands in handling a large construction cartel case. This sharing of experience and expertise partly reflects the global spread of competition law and the strength of our international networks, but it also reflects the volume of dialogue that now takes place between officials, and which did not take place ten or even five years ago.

The OFT is now far more capable than it was even a year ago to face some very challenging times, including taking on a wider range of work with reduced resources, and we have benefited from now having an enlarged board, and a more focused executive structure.

Facing the challenges ahead

Looking ahead, we need to build further on the work we have done to prioritise and evaluate our activities so that we make the best use of our resources and concentrate on the most important issues.

We have to ensure effective implementation of the new regulations resulting from the EC Unfair Commercial Practices Directive, taking a pragmatic approach as business adapts to the new regime. Together with Department for Business, Enterprise and Regulatory Reform (BERR), we have worked closely with business to provide practical guidance, and the challenge will be to work with business on issues that arise in practice, and seek to resolve them in a practical way and through court action only where necessary.

One of our biggest challenges is getting competition compliance firmly placed on the boardroom agenda. There simply is not sufficient engagement from company directors, including non-executives, in ensuring compliance with competition law. Boards need to become much more interested in the kinds of activities that their senior managers are engaged in, and whether they are lawful or not – and senior managers need to ensure that their staff comply with the law. Few businesses take a laissez-faire attitude to health and safety at work or to environmental law. Competition law should be no different.

The OFT is now far more capable than it was even a year ago to face some very challenging times, including taking on a wider range of work with reduced resources, and we have benefited from now having an enlarged board, and a more focused executive structure.

At the beginning of the year three Non-Executive Directors took up their appointments: Bronwen Curtis, Alan Giles and Frédéric Jenny. At the end of this year Allan Asher, who has long experience in the consumer field internationally, stood down after five valuable years of service and we thank him for his contribution and wish him every success.

With this new structure, our commitment to innovation, and our work with partner organisations locally, nationally and internationally, I am confident we will continue to improve the impact we have in making markets work well for consumers.



Philip Collins
Chairman

Chief Executive's statement

The OFT has a strong and compelling mission – to make markets work well for consumers. The more consumers are active and engaged in searching for better value, the greater the reward to efficient business in winning higher sales. Equally, the more that firms compete to win customers' business, the greater the benefit to those customers in terms of price, choice, and quality of service.



When this virtuous circle works well, competition drives greater value for the economy, and stronger incentives for innovation and increased productivity. It works even better when there are no disproportionate government or regulatory barriers to competition or consumer switching.

Markets that work well for consumers generally work well for business too. When people buy something that is not what they thought it was, not at a competitive price, are misled, or get poor service, it can be incredibly

costly: bad experiences damage consumers' confidence in markets and in law-abiding businesses.

Using our structure to make markets work well for consumers

Approximately 40 agencies in the world have remits that cover both competition and consumer functions. However, the OFT is unique in our innovative drive to fuse competition and consumer work, so as to ensure our work supports this virtuous circle. Our approach recognises the fact that we can only successfully change

behaviour if we consider all the actors in markets and how they interact with each other. While we still have some way to go on that journey, we have in the past year undertaken to join competition and consumer work together where possible.

During the year, we have continued to improve our structure by combining our internal customer services with Consumer Direct, Credit Licensing and other external services into a new central Corporate Services function.

Focusing on market outcomes not OFT outputs

This year we have continued to lay the foundations for meeting the performance targets we agreed with the Treasury in our 2008–11 settlement. This focuses our commitment in a practical way to deliver measurable benefits to consumers of at least five times our annual budget, but the agreement goes far beyond that target. These performance targets are closely aligned with the vision we introduced two years ago, and give us the flexibility to target our resources on work that has a high impact on the economy and tackle emerging problems. In that way, we measure our success in terms of the impact on markets, and not on the number of outputs we produce.

Our job is to ensure that vigorous competition and choice drive positive changes in behaviour across business, consumers and government who, after all, are the actors that determine market outcomes. We do not wish to specify market outcomes: rather our aim is to allow competitive market forces to produce better outcomes for businesses and consumers alike.

Supporting a clear and consistent environment for business

One of our challenges is how we set out for business, through cases, studies, policy guidance, and other outputs, what pro-competitive behaviour looks like, and equally what is unacceptable. We have to make things clearer and more predictable for business, but also send a strong signal that, when lines are crossed, we are prepared to act.

We strive to be consistent over time and across the markets we work on to ensure that our work builds an ever more consistent and clear picture for business. For this reason, we put enormous emphasis on high-quality, evidence-led work.

Many businesses operate nationally and internationally. They can be more efficient and innovative if they face consistent market standards irrespective of domestic or international boundaries. Over the past year, we have co-operated closely with domestic and foreign partners both in areas of joint work and in maintaining and increasing clarity and consistency for business. In particular, we have engaged closely with our colleagues in Local Authority Trading Standards Services both on individual cases like MB Designs, and in improving

impact by enhancing intelligence capabilities, developing skills, championing market outcomes in national priorities, and supporting regional work.

A central part of this work is tackling disproportionate state restrictions in markets. We have continued to advocate competition across government, arguing for better regulation, competitive neutrality, and consistency in fully costing the effects of any possibly anti-competitive restrictions in new or existing laws and regulations.

Changing behaviour through high-impact cases

We have worked hard to ensure that our highest impact cases have focused on behaviour that clearly harms consumers. Many of our cases this year have concerned business practices that have the potential to restrict horizontal competition between rivals, with potential both to harm consumers and economic efficiency. The fines we have set in such cases are intended to send a clear signal about unacceptable behaviour. Other work such as that on airline pricing has centred on ensuring that consumers have correct and reliable information so that their choices support a level playing field between rivals.

This has been a year of continued internal change, embedding our new structure and focusing our work in terms of outcomes and the positive impact we have on the economy. The work you will read about in this report adds up to a substantial achievement in a single year, and that is a tribute to our people. We have been very ambitious and taken on high-impact cases that make a real difference for markets and consumers, and OFT staff have been prepared to go the extra mile to achieve our targets.

We won our appeal to clarify that consumers shopping with their credit card in other countries are entitled to the same protection as they are in the UK. This is a hugely important decision because with the growth of the internet, and low cost travel, people are buying more internationally and, perhaps most of all, because it may avoid the alternative of costly regulation.

Hard-core cartels that involve competitors getting together to fix prices directly or indirectly are hugely harmful to consumer and business buyers alike. And, like scams and other manifestly deceptive practices, they harm legitimate business by undermining market confidence. We have this year, with the marine hoses cartel cases, clearly signalled that we will use our criminal powers to take on the most egregious anti-competitive market behaviour.

During the year we published independent research on the deterrent effect of our work. Businesses and legal practitioners were asked about how our work has impacted on their business decisions and behaviour. The research found that for each merger blocked or modified following direct intervention by the UK competition authorities, at least another five more merger plans were abandoned or modified on competition grounds.

The research also showed that criminal sanction is a substantially stronger deterrence.

Looking forward

This has been a year of continued internal change, embedding our new structure and focusing our work in terms of outcomes and the positive impact we have on the economy. The work you will read about in this report adds up to a substantial achievement in a single year, and that is a tribute to our people. We have been very ambitious and taken on high-impact cases that make a real difference for markets and consumers, and OFT staff have been prepared to put in huge effort to achieve our targets.

This year we will have a lower budget while taking on more powers and responsibilities. We are up to that challenge – we have already become better at prioritising and targeting our resources, and we will continue to be more efficient in our use of public resources to deliver tangible benefits for consumers.



John Fingleton
Chief Executive

Highlights

High-impact work

Investigating personal current accounts

- We launched an investigation under the Unfair Terms in Consumer Contracts Regulations 1999 (UTCCRs) into the fairness of personal current account unarranged overdraft charges.
- In April 2008 the High Court confirmed our view that unarranged overdraft charges can be assessed for fairness under the UTCCRs.
- In parallel, we launched a market study which takes a wide-ranging look at whether the personal current account market is working well for consumers.

Addressing price fixing in the passenger air transport market

- BA agreed to pay a penalty of £121.5 million after admitting colluding with Virgin Atlantic over fuel surcharges added to ticket prices.

Combating alleged collusion on dairy retail prices

- We identified evidence of collusion between certain large supermarkets and dairy processors over the retail prices of certain dairy products.
- As part of early resolution agreements, some of the businesses involved will receive significant reductions in penalties on condition of full co-operation.

Acting against airlines' misleading pricing

- We engaged with 13 airlines that did not include all fixed, non-optional costs in advertised prices on their websites.
- All have improved the transparency of their websites so that consumers are better able to compare prices and make informed choices.

Gaining more protection for overseas credit card transactions

- We helped to ensure that consumers have the same protection when using UK credit cards at home or abroad, regardless of the bank's arrangements with retailers.
- The House of Lords ruled in favour of the OFT that Section 75 of the Consumer Credit Act 1974 applies to overseas credit card transactions. It confirmed that credit card issuers are (individually and jointly) liable with suppliers if a consumer has a valid claim against the supplier for a breach of contract or misrepresentation. This applies to transactions where the price is above £100 but no more than £30,000.

Investigating changes to medicines distribution

- We studied the likely impact of manufacturers using 'Direct to Pharmacy' (DTP) schemes and/or reducing the number of distributors they use. Under DTP, manufacturers set the medicine prices and delivery service standards received by pharmacies.
 - We made recommendations to Government to combat significant potential risks identified with the new arrangements, including increased NHS costs and delays for patients.
-

Criminal cartel charges

- We brought our first criminal charges for cartel offences against three UK businessmen resulting from a criminal investigation into a suspected international cartel in the supply of marine hoses.
- Our investigation was closely coordinated with those of other competition authorities, including the European Commission and the US Department of Justice.

Raising business standards and promoting consumer confidence

- We continued to work with business to raise standards of customer service through voluntary business-to-consumer codes of practice under the Consumer Codes Approval Scheme.
- During the year, we approved the codes of practice of two organisations and a third organisation achieved the first stage of approval. This brings the total number of approved codes of practice to seven.

Helping consumers get the most from internet shopping

- We published a major market study of internet shopping which identified some areas hindering online consumers.
- We followed up this study by working with our partners to give tips to consumers about online shopping in National Consumer Week.
- We also raised business awareness of online shopping laws, including through a websweep of the top 485 most visited UK retail websites with Local Authority Trading Standards Services.
- The websweep found that most large online retailers were complying with key consumer protection requirements, but that there is also room for improvement in areas such as cancellations and refunds.
- The direct consumer savings as a result of the internet shopping report and the follow up work are estimated at around £48 million.

Internet shopping report and follow-up work:

www.offt.gov.uk/advice_and_resources/resource_base/market-studies/completed/internet

Protecting consumers from anti-competitive mergers

- Our decision to investigate BSKyB's purchase of a 17.9 per cent stake in ITV ultimately led to BSKyB being required to reduce the size of its shareholding.
 - In four other cases this year, we used our power to accept remedies from the merging parties. This means we can protect consumers from specific concerns while allowing the benign parts of the transaction to continue, and removing the need for detailed investigation by the Competition Commission (CC).
 - Publicising the results of high impact cases, such as our investigation into BSKyB, demonstrates our continuing commitment to effective competition law enforcement and acts as a deterrent to other businesses.
 - We estimate that the direct consumer benefits from our work on mergers are around £115 million per year on average for the three year period 2005–06 to 2007–08.
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Strengthening prioritisation processes

- We have strengthened our approach to prioritisation, including identifying principles to guide how we prioritise the actions we take.
- We expect to publish the final version of the principles later in 2008 and have established a robust and easy-to-use internal system to support staff in prioritising their work.

Preparing for changes to consumer credit licensing

- We finalised the implementation of the changes to the consumer credit licensing regime resulting from the Consumer Credit Act 2006, developing a risk-based approach to credit competence assessments, and have published revised guidance on credit fitness.

Consumer credit licensing:

General guidance for licensees and applicants on fitness and requirements www.offt.gov.uk/shared_offt/business_leaflets/credit_licences/oft969.pdf

Becoming a centre of intelligence and excellence

Implementing the Unfair Commercial Practices Directive

- We worked closely with the European Commission and the Department for Business, Enterprise and Regulatory Reform (BERR) on the implementation of the Unfair Commercial Practices Directive (UCPD).
- We have developed and rolled out a training programme for enforcers.

Estimating consumer detriment

- During the year we conducted a major study to investigate the level of consumer detriment in the UK.
- This major study involved more than 10,000 respondents, around 2,000 face to face interviews and in-depth follow-up on around 1,500 consumer problems.

Proving the power of deterrent action

- We published independent research on the deterrent effect of competition enforcement, to assess the extent to which our enforcement work deters potential mergers and possible infringements.
 - The research suggests that the deterrent effect is significantly greater than the direct effect of enforcement in all areas of merger control and enforcement of competition law.
-

Estimating the impact of our actions

- We have continued to embed estimation of the direct monetary impact of our work into more of our core activities.
- Most large projects now have defined, measurable success indicators that will be monitored over time.

Evaluating our taxi study

- We published an independent evaluation of the impact of our recommendations made in a 2003 market study into the taxi industry.
- The OFT hopes that the findings will feed in to the Department for Transport's review of taxi regulation this year.

Consulting on redress

- We published a discussion paper on private actions in competition law, which was welcomed by a wide variety of stakeholders. An effective private actions system is a key element of the competition regime. Currently, barriers to private redress mean that consumers and businesses are often not getting the compensation they are entitled to.
- As a result of feedback and a public hearing in September 2007, we published our recommendations to Government on the steps we believe should be taken to make private actions in competition law more effective.

Private actions in competition law:

Effective redress for consumers and businesses

www.offt.gov.uk/advice_and_resources/publications/reports/competition-policy/oft916

Triggering change through economic research

- We commissioned and published economic research papers on:
 - how the ending of resale price maintenance on books has affected the productivity of book retailers and publishers
 - the effectiveness of remedies in consumer markets
 - the interactions between competition and consumer policy.

www.offt.gov.uk/shared_offt/economic_research/oft981.pdf

Working in partnership

Working with Local Authority Trading Standards Services to protect consumers

- Working in partnership with Local Authority Trading Standards Services in Scotland, we investigated MB Designs (Scotland) Limited, a Scottish-based double-glazing supplier, and achieved a successful settlement.

Piloting giving generic financial advice

- Consumer Direct, the consumer advice helpline and website operated by the OFT, won and implemented a research pilot project to offer generic financial advice to callers as part of the Treasury-funded Thoresen Review.

Clarifying roles with the Competition Commission

- We worked with the CC to draft a Memorandum of Understanding to clarify our respective roles when reviewing mergers and markets remedies.

Helping 'Save Xmas' through consumer campaign

- The collapse of the Farepak hamper company triggered a number of actions between the OFT and our partners, including advising the BERR Minister on regulations for this sector.
- After Farepak's collapse, the OFT launched a major campaign to educate consumers about the options available for Christmas saving.
- We built partnerships at local and national level with organisations including Citizens Advice to deliver practical sessions on saving for Christmas in communities nationwide.

Developing the OFT as an organisation

Delivering projects more effectively

- We have implemented an Effective Project Delivery Framework which provides consistent procedures across all workstreams and groups within the OFT.
- The framework will allow us to remain flexible in our approach while still effectively managing risks and delivery.

Creating a knowledge sharing culture

- We have taken the first steps towards our comprehensive knowledge management strategy.
 - We have set up a dedicated team to gather and disseminate know-how across the OFT.
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Managing intelligence

- We have enhanced the way we gather and analyse intelligence through:
 - introducing a new intelligence-led process to identify new cases and issues
 - targeting resources to proactively gather information on chosen topics, identifying issues for further investigation
 - working to improve our understanding of markets.

Looking ahead

- We launched an expanded Horizon Scanning team to maximise the number of high quality project proposals to select from, and to identify medium-term trends that could affect operations.
- Successful projects include a discussion forum on the OFT intranet to generate and encourage ideas.

Identifying emerging trends

- We commissioned research involving a wide range of stakeholders into emerging trends that might affect medium term consumer behaviour and business practices.

Improving leadership skills

- We focused on improving the leadership skills of our managers, including a three-day leadership development course attended by over 200 people.

Raising Consumer Direct's profile and use

- We continued to raise the profile of Consumer Direct, the consumer advice helpline and website operated by the OFT.
 - During the year, the number of visits to the Consumer Direct website increased by seven per cent.
 - In the final customer survey of the year, 83 per cent of respondents said that they were satisfied or very satisfied with the service.
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About the OFT

Our mission

Our mission is to make markets work well for consumers. Markets work well for consumers and contribute to the health of the wider economy when they are efficient and productive.

Intervention by the OFT is designed to support the development of competitive, efficient, innovative markets where:

- standards of consumer care are high
- consumers are empowered about making choices
- businesses are not disproportionately burdened by Government regulations
- businesses are encouraged to offer benefits to consumers beyond the protection afforded by law.

When markets are not working well for consumers and problems cannot or are unlikely to be resolved naturally, intervention by the OFT may be necessary.

Making markets work well for consumers

The OFT achieves its goals through using:

- the **competition law regime** to ensure that consumers benefit from innovative markets that are not constrained by anti-competitive behaviour or unnecessary and inappropriate regulations
- the **consumer law regime** to ensure that consumers are able to make informed and rational selections of products and services and that their choices are not impeded by artificial constraints.

Keeping a balanced view

We look at both the demand and supply sides of markets.

Where empowered consumers are able to make informed decisions, businesses are more likely to:

- innovate
- reduce inefficiencies
- supply and compete in ways which make markets work well for consumers and the wider economy.

The OFT – a brief overview

The OFT is a non-ministerial government department with a broad remit. The majority of our work consists of:

- analysing markets
- enforcing consumer and competition law
- undertaking advocacy
- working with partners to deliver education programmes to businesses and consumers.

We strive towards leadership in competition and consumer policy in order to influence decision-makers and opinion-formers in the UK and internationally.

Deliver
high-impact
outcomes

Develop,
promote and
attract the
best talent

Be a centre
of excellence

Our vision

Achieve our
objectives in
partnership

Be a centre
of intelligence

Deliver high-impact outcomes

that have significant benefits for consumers and the economy, improve legal certainty, support wider compliance and deterrence, and foster efficient, competitive and pro-consumer market conduct using the entire range of our activities.

Be a centre of intelligence

using economic data and feedback from Consumer Direct, partners and stakeholders to inform our own and others' work, to identify markets that are not working well, to empower consumers and to inform business, Government and the public about consumer and competition issues.

Develop, promote and attract the best talent

through providing a supportive environment in which staff can learn and develop to reach their potential.

Be a centre of excellence

in consumer and competition policy and enforcement, by linking international best practice and national economic understanding with national and local delivery, and engaging in self-examination and open evaluation to improve how we work.

Achieve our objectives in partnership

with others including sector regulators, Government, the courts, the Competition Commission, the European Commission, Local Authority Trading Standards Services and businesses, consumers and their representatives.

Supporting business

By monitoring, addressing and remedying all aspects of markets, we provide the framework in which businesses can operate in a climate of fairness and freedom to innovate. We protect business when it acts as a buyer and seller by acting against cartels, misuse of market power and government restrictions which distort markets and harm competition. We also seek to protect the reputation of UK markets by dealing with scams, rogue traders, cartels and other negative influences, while recognising the need to minimise burdens on business.

Working to achieve better regulation

We are committed to applying the Government's principles of better regulation across all of our work:

- proportionality
- transparency
- consistency
- accountability
- targeted intervention.

The OFT's overall approach is closely aligned with these principles.

Implementing our principles

Proportionate

Across all our work, we are committed to acting in a manner which is proportionate to the matter in hand. We will consider carefully and at an early stage what remedies might be most appropriate. We review our methods and our choice of remedy during our investigations to ensure that we obtain proportionate and effective outcomes.

Transparent

We aim to ensure that we carry out our work in a transparent manner and that where possible parties are regularly informed of the status and anticipated timeframe of the inquiries in which they are involved.

Consistent

In carrying out our business, we will act fairly and apply our procedures to achieve consistent outcomes. We aim to tailor our actions to individual circumstances.

Clear accountability and responsibility

We work on the principle that, where powers are shared between separate authorities, action should always be taken by the most appropriate body, taking account of other statutory and non-statutory mechanisms.

Simplification

We recognise the need to remove unnecessary burdens on business as they will typically be passed on to consumers in the form of higher prices, lower quality or reduced choice.

We aim to ensure that our interventions do not impose unnecessary costs on business while delivering our overall objectives. We also identify and, where possible, address regulatory burdens imposed by government where these reduce efficiency and create costs for businesses and consumers. Our Simplification Plan sets out in more detail how we propose to reduce burdens on business.

Simplification plan:

www.offt.gov.uk/advice_and_resources/publications/corporate/simplificationplan/

Being accountable

The OFT is accountable to all its stakeholders, including government, for example through:

- agreeing performance targets with HM Treasury
- consulting on our annual plan and then laying before Parliament our annual plan and annual report, including performance measures relating to outcomes
- Parliamentary scrutiny in Westminster and the devolved administrations, for example, through investigations by select committees, and, where appropriate, with any enquiry by the Parliamentary Commissioner for Administration
- peer review exercises such as the Hampton Implementation Review, and any comparable processes designed to ensure best practice in enforcement
- the National Audit Office in its scrutiny of the efficiency and effectiveness with which we use our resources.

Making markets work well through competition and consumer law regimes

Competition encourages businesses to improve their prices and quality to win customers. In competitive markets, buyers can switch to another supplier if they dislike certain products or practices. This incentivises suppliers to satisfy customer preferences.

Competition also incentivises suppliers to provide truthful and useful information about products and to fulfil promises concerning price, quality and other terms of sale. Consumers can punish a seller's poor service or failure to fulfil a promise by voting with their feet – and their wallets. This punishment is usually swift, particularly in the case of products which are frequently bought and where purchasers can readily judge quality.

If consumers have access to good information and act upon it, then normal market forces are likely to compel sellers to improve their products or services to attract and maintain consumer confidence. Therefore, creating informed and empowered consumers is a fundamental foundation to make markets work well, and achieve a balance between key goals of consumer law and competition policy:

- the ability to operate free from deception or ignorance concerning the material features of products and services, and the terms of supply
- the maintenance of an efficient, innovative, competitive economy.

Reputable businesses care about how consumers see them. They rely on reputation and consumer satisfaction to retain custom and increase sales. By contrast, disreputable businesses cheat consumers, take the revenues and disappear from sight, often to appear in another guise to steal again. Likewise, cartelists conspire to deny consumers the benefit of competition and usually seek to cover up their actions in order to deprive consumers of lower prices and/or greater choice.

When market forces cannot overcome such threats to consumers, for example, when consumers and harmed businesses are unable to gain redress themselves, then OFT action may be required.

Taking a balanced approach

Promoting open competition for consumer benefit

Our approach is founded on the principle that consumers benefit most through competitive, open and well-functioning markets. We strive to promote open competition and to encourage the unfettered availability of products and services and the provision of non-deceptive information for consumers.

We focus our interventions on areas which pose the greatest threat to this, including:

- cartel behaviour (price fixing, market-sharing and bid-rigging)
- the abuse of market power
- the use of unfair contract terms and unfair commercial practices
- deceptive or misleading advertising
- mass-marketed scams
- the actions of 'rogue' traders.

We employ an increasingly sophisticated, systematic and rigorous approach to identifying the scale and cause of consumer harm and pay particular attention to key industries and the needs of vulnerable consumers. We also recognise the need to avoid imposing unnecessary burdens on business.

Focusing on economic growth and productivity

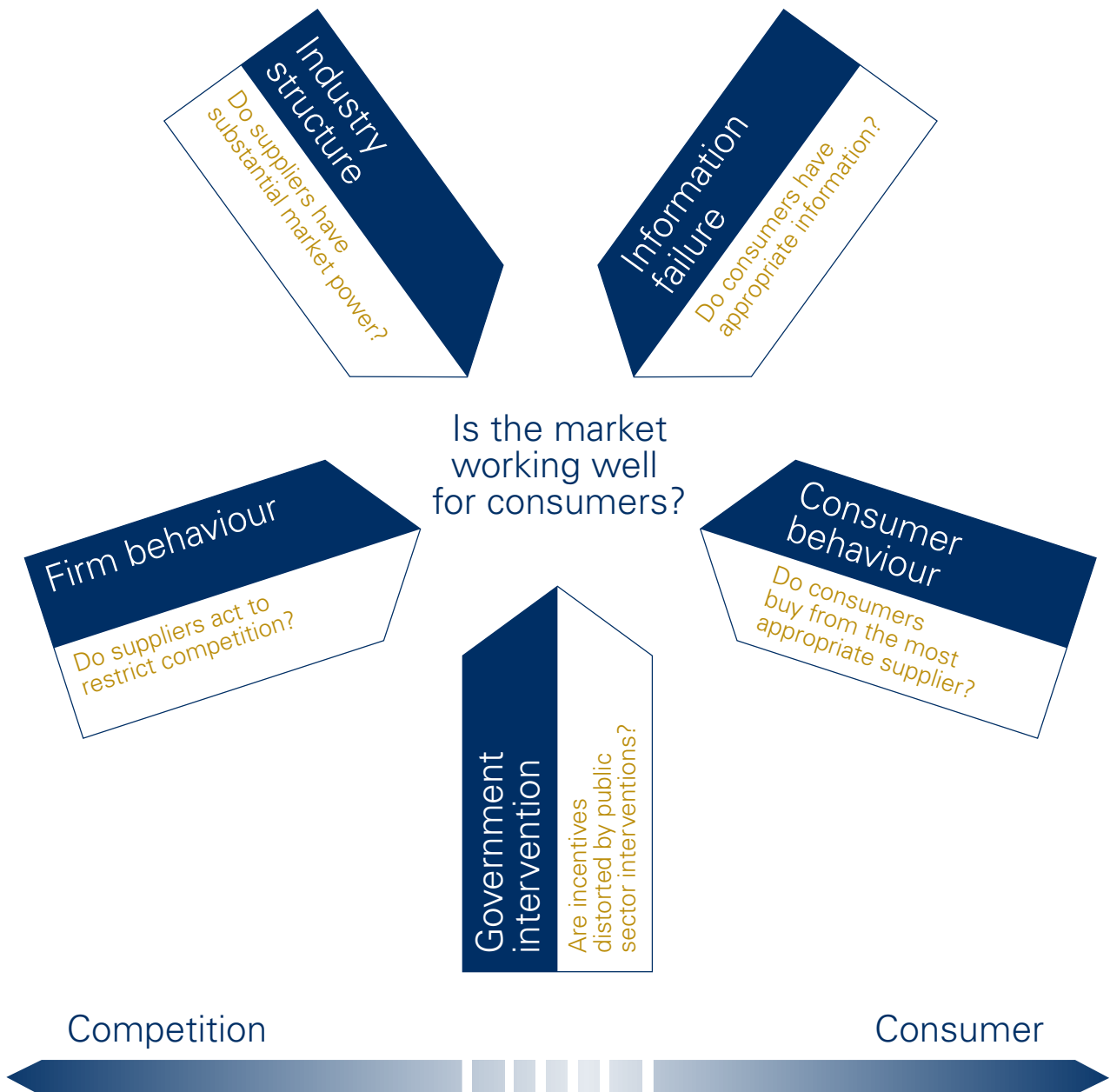
We focus on outcomes which support productivity, growth and the prosperity of the UK economy as we believe this is in the best interests of businesses and consumers. We use a variety of approaches including self-regulation in the form of the OFT-approved codes of practice, business education, merger control and the direct enforcement of competition and consumer legislation.

Our methods include:

- enforcement (civil and criminal)
- market studies
- consultation and workshops
- advocacy to help formulate Government policy and to address new or emerging competition and consumer issues
- educating businesses and consumers.

Beyond the immediate goal of stopping bad practices and promoting beneficial ones, our activities improve the institutions and processes through which competition and consumer policies are formulated and applied.

Key factors underlying markets that work well for consumers



Preventing harm to consumers and markets

Preventing harm in the first place is better for consumers than taking enforcement action afterwards.

One of the ways we achieve this is through equipping businesses and consumers with knowledge about their legal obligations and rights.

We undertake awareness programmes with businesses and consumers and coordinate an alliance of consumer education partners. Alongside these activities, we aim to deal rapidly with complaints from those affected by unlawful activity and market failure.

As intervention should be the last, not the first, resort, we encourage businesses to raise compliance levels and stop unlawful, unfair and deceptive practices.

In November 2007, we issued a statement of consumer protection enforcement principles detailing our commitment to the principles of good enforcement, as set out in the Legislative and Regulatory Reform Act 2006, the Enforcement Concordat and the Regulators' Compliance Code.

We want to act so that all stakeholders are:

- satisfied that decisions on enforcement interventions will be proportionate and consistent
- able to understand how we target our resource for the greatest impact
- clear on the factors taken into account when deciding the appropriate enforcement intervention
- able to hold us to account for our interpretation of the law and decisions we take on enforcement action.

www.offt.gov.uk/shared_offt/reports/consumer_protection/oft964.pdf

Targeting our tools

We have a range of tools at our disposal to address market failures and make markets work well for consumers. In many cases, we use a combination of these tools to address failures in a holistic way. We also work in partnership with other organisations which have complementary powers or influence in relation to markets.

Preventative tools

Including:

- the Consumer Codes Approval Scheme
- OFT guidance to consumers and business
- consumer education programmes
- deterring poor practice by bringing high impact cases and publicising the results.

Diagnostic tools

Including:

- research
- market studies
- investigating and responding to complaints
- references to the CC
- investigation and intelligence gathering.

Advocacy tools

Including:

- our international work, where we use our influence to promote the interests of UK consumers
- providing advice to Government, business and consumers on competition and consumer issues
- encouraging private actions and redress for breaches of consumer and competition law.

Enforcement tools

Including:

- accepting and reviewing undertakings
- applying financial penalties and imposing directions under competition law
- taking criminal actions for unfair commercial practices
- seeking court injunctions
- refusing and revoking consumer credit licences
- warning and banning estate agents.

Our current powers under competition and consumer law are explained in more detail on the OFT website:

www.offt.gov.uk/advice_and_resources/resource_base/legal/

Our statutory remit

includes obligations on us to:

- operate the consumer credit licensing and merger control regimes
- act as a supervisory authority under the Money Laundering Regulations 2007
- consider and respond to complaints
- assist the European Commission to carry out any inspections in the UK under Articles 81 and 82 of the EC Treaty.

Key terms:

Articles 81 and 82 of the EC Treaty

- Article 81 relates to anti-competitive agreements
- Article 82 relates to abuse of a dominant position

The diagram below highlights which tools are available to us when addressing a variety of market failures.

			Making markets work well for consumers				
			Industry Structure	Firm Behaviour	Consumer Behaviour	Information Failure	Government Intervention
Enforcement	Competition regime	Cartels and anti-comp agreements		✓			
		Abuse of dominance	✓	✓		✓	✓
		Merger control	✓	✓			
	Consumer regime	EA02 Part 8		✓			
		CPRs		✓			
		UTCCRs		✓		✓	
		Credit licensing		✓		✓	
		Estate agents		✓		✓	
		AML		✓			
	Markets regime	Market references	✓	✓	✓	✓	✓
		Super-complaints	✓	✓	✓	✓	✓
		Codes of practice	✓	✓	✓	✓	
	Diagnostics	Market studies	✓	✓	✓	✓	✓
		Research work	✓	✓	✓	✓	✓
	Advocacy	Advice to government					✓
International policy work		✓	✓	✓	✓	✓	
Prevention	Advice and guidance	Consumer Direct			✓	✓	
		Consumer education			✓	✓	
		Business education	✓	✓	✓	✓	

Our structure

The changes we made to the OFT structure last year have bedded down well and are delivering important results in terms of our vision and strategy.

They have:

- brought a much clearer focus to project delivery
- enabled us to bring a number of high impact cases to closure
- better enabled us to take on important new work.

This year, our structure has continued to evolve, with some additional changes which will improve both internal and external service delivery and also enhance our communications function. The result is a simple structure involving three main areas that bring together similar functions and activities:

- Markets and Projects (market analysis and enforcement projects)
- Policy and Strategy (policy, strategy and specialist advice)
- Corporate Services (internal customer services and external consumer and business services).

Each area is led by an executive director, who is also a Board member. They are responsible and accountable for the delivery and performance of their area. They are supported by the Communications team.

The biggest structural changes have involved Corporate Services and Communications.

Corporate Services

A new Corporate Services function combines the existing HR, finance, IT and facilities management functions, with:

- Consumer Direct
- Consumer Credit
- Enquiries
- our new anti-money laundering responsibilities.

This area is being led by new executive director, Vivienne Dews, from April 2008.

We have created the Corporate Services function for a number of reasons:

- External service delivery is increasingly important to us and grouping functions which have similar service and process characteristics enables us to put a strong management focus on ensuring that we provide an excellent service. This is particularly important because these areas are set to change and expand over the coming year as we take on additional responsibilities and risks.

- It is also possible that in future we will be asked to carry out additional functions. Creating the Corporate Services function means that we will be able to take on additional areas of work like this smoothly and with the minimum of disruption to the rest of the organisation.
- Stronger leadership and clearer accountability are important steps in ensuring that we provide high standards of service and management in our internal services.

Communications

Effective communications lie at the heart of the OFT's goal of changing the behaviour of businesses and consumers to make markets work well for consumers. To enable it to play a more strategic role throughout the OFT, we have changed the structure of our Communications function to create a smaller, more senior team. A new external relations division will combine media and stakeholder relations and a new campaigns team will incorporate business and consumer communications, consumer education and marketing.

The board

The OFT Board is principally responsible for strategic direction, policy priorities and performance monitoring. All but the most significant operational and enforcement decisions are delegated to the executive management team, who are accountable to the Board.

Our Board is continuing to evolve and over the past year, we have appointed three new non-executive directors and one new executive director. In addition, Lord Blackwell has been reappointed for a period of two years, which started on 31 March 2008.



Chairman

Philip Collins (1) 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 30 September 2005, he was Senior Counsel at Wilmer Cutler Pickering Hale & Dorr LLP, based in Brussels.

Philip was one of the founders of the Competition Law Forum established at the British Institute of International and Comparative Law and a member of its Advisory Board from its foundation in 2002 until 2005. He is also a member of the Editorial Board of the European Competition Journal.

Chief Executive

John Fingleton (2) 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 around competitiveness.



Non-executive directors

Allan Asher (3) is Chief Executive of energywatch. Previously, he was the Campaigns Director of the Consumers' Association. Allan is also Director of FEMAG (Foundation for Effective Markets and Governance) in Canberra, Australia, and chair of INSOC (International Network of Civil Service Organisations on Competition) in Jaipur, India. He chairs the consumer policy committee of the British Standards Institute and is a consultant to Consumers International and to the Consumer Unity and Trade Society (India). Allan is also a member of Transparency International.

Lord Blackwell (4) is Non-executive Chairman of Interserve plc and a non-executive director of Standard Life plc and SEGRO plc. He is also an advisor to KPMG Corporate Finance and Chairman of the Centre for Policy Studies. From 1995-1997, 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 1997-2000.

Bronwyn Curtis (5) is a business economist who has worked in a number of commodity trading and financial sectors. She is currently the Chairman of the Society of Business Economists, a partner in Arch Financial Products LLP and a member of the shadow Monetary Policy Committee for The Times. She was previously a Managing Editor and a columnist in Europe for Bloomberg LP. She has held various economics, strategy and management roles at Nomura, Deutsche Bank and Masterfoods.

Alan Giles (6) 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. He was formerly Chief Executive Officer of HMV Group plc, Managing Director of Waterstone's Booksellers Ltd and

Executive Director of WH Smith Group plc. He is an Associate Fellow at Saïd Business School, University of Oxford, where he teaches on retailing.

Professor Frédéric Jenny (7) 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 has an internationally recognised reputation for his work in the competition field.

Richard Whish (8) is Professor of Law at Kings College, London, where he has worked since 1991. His professional career has been devoted to competition law and policy and he has written extensively on competition law matters.

He was in practice, as a partner, with responsibility for the competition law practice from 1989 to 1998, and continues to act as a consultant on competition law. He has extensive experience of advising Governments and NGOs on the development of competition law.

His other Government appointments include being a former member of the Director General of Fair Trading's Advisory Panel.

Executive directors

Jonathan May (9) is an executive member of the OFT Board. He is also Executive Director of Policy and Strategy.

Previously, he was the first Director of the Markets and Policy Initiatives Division. 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 (DTI), where he was responsible for developing strategy on competition

policy. Before that he worked at the Treasury initially on public expenditure responsibility for Home Office and overseas aid policies, latterly focusing increasingly on competition, utility markets and regulation, and energy issues.

His team draws up the OFT's strategies and policies, and ensures that they are implemented consistently across the organisation.

Sean Williams (10) became Executive Director of Markets and Projects in June 2007.

The Markets and Projects Area of the OFT is responsible for enforcing consumer and competition law in UK markets. He leads the OFT's converged approach to delivering whole market solutions to make markets work well for consumers.

The area is engaged in a wide variety of activities including:

- market studies and investigations
- mergers
- cartels and other competition law investigations (including super-complaints)
- consumer law investigations
- regulating estate agents.

Sean joined the OFT from Ofcom where he was Executive Director and Competition Partner responsible for the development and enforcement of economic regulation and competition policies in communications markets. In particular he led Ofcom's transformation of fixed line telecoms regulation, including the operational separation of BT.

Sean is also a non-executive director of Williams Lea Holdings plc, an international business services company of 10,000 employees. From 1997 to 2003 he was a partner of LEK Consulting, a strategy consulting firm, where he advised on competition and business strategy issues. He was also a special adviser in the Prime Minister's Policy Unit from 1995 to 1997.

Non-executive directors – commencing 1 April 2008

James Hart has been 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.

Anthony Lea has been appointed for a four-year term from 1 April 2008. 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 Engelhard Corporation and Terra Industries. He is currently Chairman of the World Mining Trust plc and a non-executive director of the British Standards Group.

Non-executive directors – commencing 1 October 2008

Dr Philip Marsden has been 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 who 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.

Executive director – commencing 1 April 2008

Vivienne Dews became Executive Director of the OFT's new Corporate Services function in April 2008.

Vivienne joins the OFT from the Health and Safety Executive, where she was Director of Resources and Planning, and led corporate support and other services. Her earlier career was mainly in the Home Office. From 1999-2001, she was Chief Executive of the Public Information Technology Organisation.

She is a member of the Chartered Institute of Public Finance Accountants.

In addition to providing the OFT's back office support and infrastructure, Corporate Services includes services for consumers and companies. Vivienne will lead on ensuring that corporate support is provided coherently and effectively, so that the OFT is able to achieve its objectives and ensure the effective and efficient delivery of external services.

Our senior staff

We have put in place the structure, skills and capability to deliver the OFT's strategic goals.

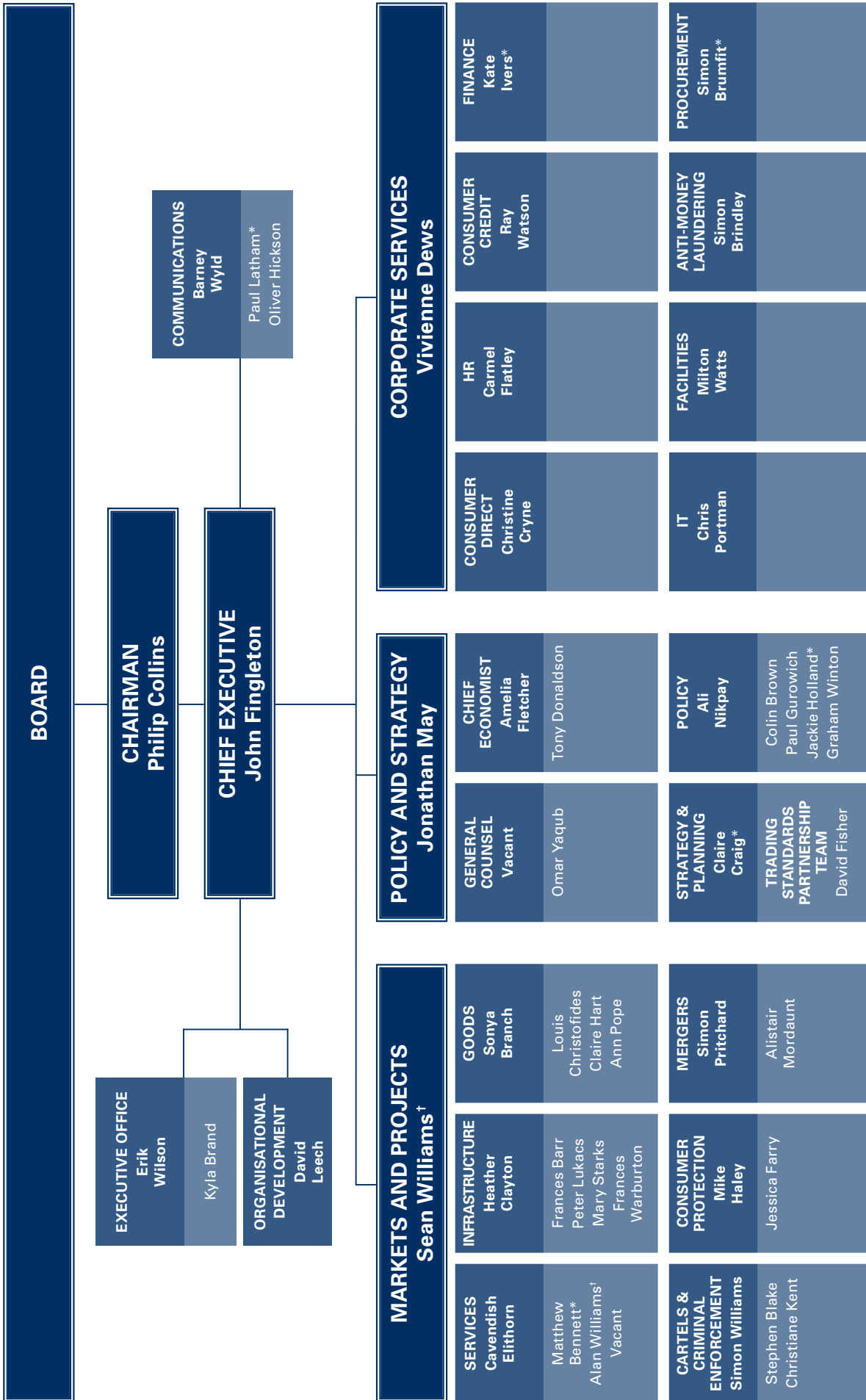
Corporate governance and risk management

The OFT is committed to ensuring a high standard of corporate governance. The OFT Board has a breadth of knowledge and experience, and incorporates independent non-executive directors. In ensuring the successful delivery of the OFT objectives the Board and the Accounting Officer are supported by a robust system of internal controls, overseen by the Audit Committee, independently chaired by Nigel Mathews.

From June 2008, the Audit Committee will be chaired by Anthony Lea.

Executive management team

All but the most significant operational and enforcement decisions are delegated to the executive management team, who are accountable to the Board. From 1 April 2007, executive members were John Fingleton, Jonathan May, Sean Williams, Bart Smith (until November 2007) and Christine Wade (until March 2007). From 1 April 2008 Vivienne Dews joined the executive management team.



Our senior staff as of 31 March 2008

* From Summer 2008

† Until June 2008

Operating and financial review

The activities of the OFT are funded by Parliamentary Vote. In 2007–08, the OFT had a gross budget allocation of £75.994m for administration and programme resource expenditure and £1.398m for capital expenditure.

During the year, the OFT incurred gross expenditure of £77.879m on administration and programme resource expenditure in pursuit of its objectives as detailed in The Statement of Operating Costs by Departmental Aim and Objectives.

The total over spend of £1.885m has arisen from a £1.938m provision for VAT incurred on Consumer Direct activities, which may have been incorrectly recovered by the OFT during the 2007–08 year.

The net operating cost during the year was £68.846m; the difference between the net resource outturn and resource budget outturn (both £77.879m) and the net operating cost relates to income of £9.033m collected by the OFT and remitted to Treasury.

The OFT invested £1.495m in capital expenditure in the year in respect of furniture, office equipment, IT hardware, software, IT software licences and assets under construction. The assets under construction began being utilised during the 2007–08 year and were depreciated accordingly.

The OFT received income of £8.497m in respect of fees and charges levied on external customers in respect of licence fees charged for the administration of the Consumer Credit Act 1974 and fees charged for mergers under the Fair Trading Act 1973 and Enterprise Act 2002. During the year the OFT collected penalties of £0.037m relating to Competition Act 1998 (CA98) infringements. The OFT also received £0.181m in respect of recovered legal costs and £0.318m of other income relating to reimbursements of expenditure that were not budgeted for as appropriation in aid income.

Management commentary

The OFT's Annual Plan for 2007-08 set out four main objectives for OFT:

- to deliver high-impact outcomes
- to be a centre of intelligence and excellence
- to work in partnership
- to develop the OFT as an organisation.

The activities referred to in this commentary are reported by reference to the descriptions of those objectives and the commitments made under each objective in the Annual Plan.

Delivering high-impact outcomes

We aim to focus our resources on areas of work that will achieve the best outcomes in markets for consumers, either directly or indirectly. During the year, we took strong action against businesses that were misleading consumers or reached settlements in cases concerning collusion and price fixing. Our work to root out hard-core cartel activity continued and we pursued individuals who were charging consumers for bogus services. The results of our Scamnesty campaign provided us with intelligence to inform future investigations and prevent further scams. Market studies on retail banking and medicines distribution evaluated specific areas and their current and future impact on consumers.

The total consumer savings from OFT's work in the areas of scams, mergers, competition enforcement, and market studies has been estimated at around £326 million per year on average for the three year period 2005–06 to 2007–08. Of this, £12 million can be attributed to our work on scams prevention, £115 million to mergers, £77 million to competition enforcement, and £122 million to market studies.

Acting against airlines' misleading pricing

Following an earlier warning to the holiday and travel industry during the first half of 2007, the OFT engaged with 13 airlines that did not include all fixed, non-optional costs, such as taxes, in their advertised prices on their websites.

As a result all have improved the transparency of their websites so that consumers are better able to compare prices and make informed choices.

In a co-ordinated move, the Association of British Travel Agents (ABTA) took action against members that had failed to comply with the ABTA Code of Conduct in relation to the same type of misleading price information. The OFT strongly welcomed and supported ABTA's action.

Combating alleged collusion on dairy retail prices

The OFT issued a Statement of Objections in September 2007 which provisionally found collusion between certain large supermarkets and dairy processors on the retail prices of one or more of liquid milk, value butter and UK-produced cheese. The alleged collusion took place through the sharing of commercially sensitive information by different parties at different times in 2002 and 2003.

As a number of the businesses involved admitted taking part in anti-competitive practices, as part of an early resolution process, they will receive a significant reduction in the total sum of financial penalties of over £120 million that would otherwise have been imposed. The reduced penalties are also on condition that each business continues to cooperate fully with our investigation.

While demonstrating our commitment to maintaining strong and effective competition law enforcement, this case also shows that we are prepared to take a flexible approach in reducing the burden of investigations on businesses. Early resolution has reduced the cost of pursuing the case for both the OFT and the businesses involved.

The total consumer savings from OFT's work in the areas of scams, mergers, competition enforcement, and market studies has been estimated at around £326 million per year on average for the three year period 2005–06 to 2007–08. Of this, £12 million can be attributed to our work on scams prevention, £115 million to mergers, £77 million to competition enforcement, and £122 million to market studies.

We are continuing our investigation against two remaining businesses and will carefully consider their representations and the evidence as a whole before reaching a final decision.

**Key term.
Statement of Objections**

When the OFT proposes to make an infringement decision under the Competition Act 1998, it uses a 'Statement of Objections' to notify the parties involved. This then gives the parties an opportunity to respond before any final decision is made.

Addressing price fixing in the passenger air transport market

British Airways (BA) agreed to pay a penalty of £121.5 million after admitting collusion over the price of long-haul passenger fuel surcharges, following a civil case brought by the OFT under the Competition Act 1998. BA admitted colluding with Virgin Atlantic (Virgin) over the surcharges that were added to ticket prices in response to rising oil prices between August 2004 and January 2006. During that time, the surcharges rose from £5 to £60 per ticket for a typical BA or Virgin long-haul flight.

As part of the early resolution, BA accepted that on at least six occasions, the two companies discussed and/or informed each other about proposed changes to surcharges, rather than setting levels independently as required by competition law. BA's cooperation with our investigation was taken into account in setting the penalty.

As the case was prompted by Virgin when it came forward with information about the collusion, it is not expected to pay any penalty as it qualifies under the OFT's leniency policy.

The OFT's investigation was conducted in parallel with a separate investigation by the US Department of Justice and the two agencies consulted each other throughout.

In addition to our investigation under civil competition law, we have also been conducting a separate criminal investigation under the Enterprise Act 2002 into whether any individuals dishonestly fixed the levels of the surcharges. This investigation is still ongoing and the corporate admission by BA that it infringed civil competition law does not imply that any individuals have committed offences under the Enterprise Act.

Investigating personal current accounts

In April 2007, we launched an investigation under the Unfair Terms in Consumer Contracts Regulations 1999 (UTCCRs) into the fairness of personal current account unarranged overdraft charges. This followed on from our initial review where we concluded that we shared the public concern about the level and incidence of such charges.

In July 2007 we entered into an agreement with the largest current account providers (accounting for about 90 per cent of personal current accounts in the UK) in relation to bringing a test case to ensure an orderly and timely resolution of the legal issues associated with our investigation.

Judgment in the first stage of the test case process was handed down in April 2008. It sets out the judge's ruling and reasoning on a range of preliminary issues of legal principle, in particular confirming our view that unarranged overdraft charges can be assessed for fairness under the UTCCRs. It did not, however, address whether the relevant charges are actually unfair which is being determined through our overall investigation.

In parallel with the investigation, we undertook a market study into whether the personal current account market is working well for consumers and the extent to which consumers help drive competition.

The report of the study will be published later in the year, taking account of the test case judgment, and will be followed by a three month consultation period on proposed remedies for the problems identified in the report.

In the course of our work on personal current accounts, we have liaised closely with the Financial Services Authority, which is responsible for the banks' handling of complaints about charges, and have also held discussion with the banking industry, including keeping them informed on progress.

Comprehensive information about our personal current accounts work:

www.offt.gov.uk/advice_and_resources/resource_base/market-studies/personal

Winning appeal for protection for overseas credit card transactions

In October 2007, the House of Lords found in favour of the OFT that section 75 of the Consumer Credit Act 1974 applies to:

- overseas credit card transactions
- other credit purchases where there are arrangements between the lender and the retailer.

This followed an appeal by credit card issuers against a Court of Appeal judgment in March 2006 that a credit card issuer is jointly liable with an overseas supplier who has made a misrepresentation to, or breached a contract with, a consumer where the customer has made payment by credit card and the purchase price is above £100 but no more than £30,000.

The ruling:

- is consistent with the policy behind section 75 as the bank is in a better position to put pressure on traders who are at fault and to pursue any claim against traders based overseas
- means that the same protection is afforded to consumers with UK credit cards regardless of whether the credit card is used at home or abroad
- does not apply to the use of debit cards.

Our report identified that UK consumers may suffer a range of detriment from not searching effectively, not exercising applicable cancellation rights, the cost of hidden charges and not using the internet to make savings.

Investigating new ways to distribute medicines

In December 2007, we published a market study on the distribution of medicines, in response to new and proposed medicine distribution schemes, known as 'Direct To Pharmacy' (DTP) schemes. This work followed our recommendations to reform the Pharmaceutical Price Regulation Scheme (PPRS) which were set out in a separate market study, published in February 2007.

The medicines distribution market study focused on the:

- impact of Pfizer Limited's exclusive DTP scheme, using only UniChem
- likely impact of other manufacturers introducing DTP schemes and/or reducing the number of distributors that they use.

The study found that although the new arrangements may provide some benefits and efficiencies in distribution, there is also a significant risk that they will result in:

- higher costs to the NHS, possibly running into hundreds of millions of pounds
- in some cases, patients having to wait longer for their medicines.

The PPRS is designed around the traditional wholesale model, whereby medicine manufacturers sell to wholesalers who then compete to supply pharmacies. Under the new arrangements manufacturers set the prices paid by pharmacies and pay wholesalers a fee for delivering their medicines according to their required service standards. A further concern is that any future widespread use of exclusive distribution arrangements could lead to longer-term competition issues.

Our recommendations include:

- that the Government makes changes to the PPRS to ensure that NHS medicine costs do not increase as a result of changes in distribution
- that if the Government has concerns about reductions in service standards to pharmacies, it should seek the agreement of manufacturers to adopt minimum service standards
- that if service standards are reduced, the price paid for such services should also fall.

Medicines distribution, an OFT market study:

www.offt.gov.uk/shared_offt/reports/comp_policy/oft967.pdf

Helping consumers get the most from internet shopping

In June 2007 we published a market study on internet shopping.

Our report found that:

- awareness of online shoppers' rights is low for businesses and consumers
- the anonymity, speed of change and borderless nature of the internet, can pose particular challenges for the enforcers of shoppers' rights
- shoppers have significant fears about security and privacy, which put some off buying online altogether
- shoppers can find big savings by searching more effectively.

Our report identified that UK consumers may suffer a range of detriment from not searching effectively, not exercising applicable cancellation rights, the cost of hidden charges and not using the internet to make savings.

To help address the issues identified in our report we have:

- raised consumer awareness through a campaign in conjunction with National Consumer Week
- prepared consumer tips and distributed these widely through our partners in the Consumer Education Alliance

As a result of our investigation, three UK businessmen were charged in December 2007 with offences under the Enterprise Act 2002. This was the first time that charges have been brought for the cartel offence, which came into force in June 2003. It was also the first time that an OFT cartel investigation has involved a search at a home address.

- published a quiz to raise awareness of key aspects of the law relating to purchasing online
- secured the agreement of the UK's top five online auction websites to improve their content for consumers and business sellers
- agreed with the operators of seven price comparison sites to publish more information on consumer rights and help to publicise National Consumer Week
- published tips for businesses, including online security advice.

Our follow up work also included a sweep of the UK's top 485 retail websites in partnership with Local Authority Trading Standards Services. The results suggested that most large online retailers were complying with key consumer protection requirements. However, the sweep also identified that there was room for improvement in some areas including, in particular, cancellations and refunds, and contact details and transparency. Local Authority Trading Standards Services reviewers planned to follow up some of these sites. This will help to raise the standard of the sites that are most commonly used so that consumers can have confidence in shopping online.

Internet shopping report and follow-up work:

www.offt.gov.uk/advice_and_resources/resource_base/market-studies/completed/internet

Criminal cartel charges

In conjunction with our international partners, we conducted a criminal investigation into a suspected global bid-rigging, price-fixing and market allocation cartel involving marine hoses, used by the oil and defence industries for transporting oil between tankers and storage facilities.

As a result of our investigation, three UK businessmen were charged in December 2007 with offences under the Enterprise Act 2002. This was the first time that charges have been brought for the cartel offence, which came into force in June 2003. It was also the first time that an OFT cartel investigation has involved a search at a home address.

Our investigation was coordinated with measures taken outside the UK, including the arrest by the US authorities of a number of individuals in Houston, Texas. Those arrested included the three UK businessmen charged with Enterprise Act offences, who were allowed to return to the UK to face charges here as part of plea bargain agreements between the UK businessmen and the US Department of Justice. The Enterprise Act proceedings are ongoing and the individuals concerned are entitled to the presumption of innocence.

We also assisted a separate investigation by the European Commission under Article 81 of the EC Treaty. This investigation is directed at the businesses concerned and not the individuals.

Ongoing action

There are two ways for people to contact our Cartels Hotline if they have any information about cartels:

Call free on
0800 085 1664

Email
cartelshotline@oft.gsi.gov.uk

All information given to us is treated in strictest confidence.

Raising business standards and promoting customer confidence

We continue to work with business to raise standards of customer service through voluntary business-to-consumer codes of practices under the Consumer Codes Approval Scheme (CCAS).

The CCAS aims to promote and safeguard consumers' interests by helping them identify businesses with higher standards of customer care. The OFT only approves codes that go beyond the basic requirements of the law, and meet strict criteria.

Each code passes through two stages of approval.

Stage One means that:

- the code has met the OFT's core criteria in principle.

Stage Two is when the code's sponsor can prove to the OFT that:

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

If it passes the OFT's test, the code is approved.

During the year, we achieved two code approvals, with one code reaching Stage One. This means that in total there are seven approved codes of practice,

covering markets from estate agents to home furnishings and direct selling, and five codes at stage one.

Codes approved this year

- Bosch Car Service code of practice achieved OFT Approval in June 2007. It has become the first organisation within the motor vehicle mechanical repair and service sector to successfully secure approval for its consumer code of practice under the CCAS. The code's membership consists of independent garages providing car repairs and it sets the standard that members must comply with when providing vehicle repair services to customers.
- The British Association of Removers (BAR) code achieved approval in February 2008. The BAR is a trade association for professional removal and storage businesses representing over 650 members in the UK, ranging from small family businesses to multinational companies.

Code accepted as Stage One

- The Renewable Energy Association (REA) code completed stage one in November 2007. The REA is the trade association for the domestic renewable and energy efficient generators industry. The code will cover activities in the sale, installation and servicing of micro-renewable energy products such as solar panelling and micro-wind turbines, usually sold for the home.

In March 2008 we ran a four week advertising campaign (in partnership with code sponsors and member businesses) aimed at raising awareness of the Consumer Codes Approval Scheme amongst consumers and businesses, and the benefits it offers. The campaign included radio, press and outdoor advertising. Continental Research was commissioned to carry out pre and post evaluation of the consumer campaign. The results indicated that one-third of consumers had heard of the scheme or had seen the logo. The research concluded that the scheme continues to have the support of consumers, with over 75 per cent of those who had seen the campaign agreeing that the code offered real protection to consumers and that it would give them confidence when buying a product or service. Also, over one-half would look for a business with the logo next time they needed to buy goods or services.

Advice for consumers and business on Approved Codes of Practice, including how to find local businesses following the codes:

www.offt.gov.uk/oft_at_work/consumer_initiatives/codes/

We estimate that our efforts into preventing anti-competitive mergers saved the consumers on average around £115 million annually over the period 2005–06 to 2007–08.

Protecting consumers from anti-competitive mergers

Our decision to initiate a merger investigation into BSkyB's acquisition of a 17.9 per cent stake in ITV ultimately led to remedial action being taken.

Our report to the Secretary of State for Business, Enterprise and Regulatory Reform concluded that BSkyB's holding raised significant competition concerns in the TV sector. We found that BSkyB's shareholding meant that ITV was no longer fully independent and that this might alter the future competitive landscape, especially as the country approaches digital switchover.

Following a detailed investigation by the CC, the Secretary of State ultimately concluded that BSkyB should be required to reduce its shareholding to a level below 7.5 per cent.

In four other merger cases this year the OFT has used its power to accept remedies from the merging parties without the need for a detailed investigation by the CC. In appropriate cases, this facility enables us to protect consumers from the concerns generated by one part of a merger while allowing the benign wider transaction to proceed.

For example, our concerns regarding the merger between Co-operative Group Limited and United Co-operatives Limited were resolved through the parties' offer to sell around two dozen or more local Co-op retail outlets – eight supermarkets, 14 or more funeral service branches and two or more pharmacies. This commitment protected consumers of grocery retailing, funeral services and pharmacy services in the local areas of overlap between the parties.

We estimate that our efforts into preventing anti-competitive mergers saved the consumers on average around £115 million annually over the period 2005–06 to 2007–08.

Ongoing action

The OFT has power to investigate mergers even where they have been completed and have not been notified of it.

Individuals or companies concerned that a merger may be anti-competitive should contact us by email at:

mergers.intelligence@oft.gsi.gov.uk

All information given to us is treated in strictest confidence.

Alerting consumers to the risks of scams

Scams cost the UK an estimated £3.5 billion a year. An estimated three million people fall victim to mass-marketed scams such as:

- bogus lotteries
- deceptive prize draws and sweepstakes
- fake psychics
- get-rich-quick schemes
- miracle health cures.

Many of these scams are sent through the post and target the elderly and vulnerable, but OFT research indicates that less than five per cent of victims report the scam to the authorities.

As part of Scams Awareness Month in February 2008, the OFT, in partnership with 50 Local Authority Trading Standards Services, asked members of the public to collect any potential scam mailings they had received and drop them into designated 'Scamnesty' bins at local libraries and other public areas across the country. The bins were promoted locally by Local Authority Trading Standards Services with the theme 'Drop in and drop them in it'.

The mailings collected from the 'Scamnesty' bins provided useful intelligence for Local Authority Trading Standards Services and the OFT to inform future investigations and help prevent other consumers from being targeted.

The OFT's Scams Awareness Month campaign also featured a range of other activities, including:

- commissioning research into the psychology of scams
- producing a scams awareness toolkit for consumer advisers, including consumer education DVDs, posters and research facts
- developing online interactive scam guides which focus on scams involving clairvoyant, lottery, slimming and prize draw mailings
- sending 20,000 text messages nationally to 18–24 year old mobile phone users to raise awareness about scams
- sending 20,000 fake weight-loss scam mailings which went out nationally to warn about the dangers of 'miracle' weight-loss products
- widespread coverage, in both editorial and advertising, in national and local media.

In addition, the OFT produced new advisory material for carers and care professionals aimed at raising awareness of scams among elderly and vulnerable consumers. This was delivered in partnership with stakeholders including Carers UK, Action on Elder Abuse, Age Concern, Help the Aged, Neighbourhood Watch, and Citizens Advice.

As a result of its work in this area, the OFT-led Scams Enforcement Group was singled out for praise by the Government Fraud Squad as an example of coordinated action.

Ongoing action

Consumers can now report scams via the Consumer Direct website at: www.consumerdirect.gov.uk

Stopping tipster scams

The OFT gathered information during 2007 on a number of scammers involved in providing bogus racing tipster services, including Wesley Beagley, who was responsible for mailings under the names of 'Anthony Cochrane', 'Michael Rose' and 'Jonathan Wells'. Membership of the tipster services provided under these names cost up to £590. The OFT estimated that more than 3,000 consumers responded to the mailings, which would have meant that Mr Beagley gained at least £175,000 from this practice. The OFT worked closely with Local Authority Trading Standards Services and the British Horseracing Authority during the investigation.

The OFT considered the mailings to be misleading and obtained an enforcement order against Mr Beagley by consent in the High Court in December 2007, prohibiting him from continuing to be involved in the publication of misleading advertisements promoting tipster services.

In November 2007, the OFT sent out 12,000 letters to racing enthusiasts and people who gamble regularly, warning them to be suspicious of tipster scams.

The OFT's investigations continue into a number of other potentially misleading tipster mailings. Consumer education activity is also planned at a major horse-racing event.

We estimate that our work on scams of all types saved consumers on average around £12 million annually over the period 2005–06 to 2007–08.

Enforcing compliance from debt collectors

Following a marked increase in consumer complaints received about debt collection practices, the OFT warned 13 debt collection agencies and financial institutions that they needed to take positive steps to improve compliance with specific areas of the OFT's debt collection guidance.

A common theme of non-compliance involved the debt collectors chasing consumers for debts they did not owe, simply because they had the same or similar name to the actual debtor.

The OFT believes that many complaints result from debt collectors:

- failing to carry out sufficient accuracy checks of client details
- relying on poor quality data.

The companies warned were asked to review their policies and procedures, specifically in relation to tracing debtors, keeping client data up to date and maintaining its accuracy.

Debt collection is a high risk activity and improving standards in an area where consumers are particularly vulnerable as a result of their problems with debt remains a key priority for the OFT.

Following the reforms introduced by the Consumer Credit Act 2006 (CCA06) we expanded, strengthened and redeveloped our consumer credit functions during 2007 in order to prepare fully for the new regime coming into force in April 2008.

Strengthening how we prioritise

In order to target our resources, we strengthened our internal prioritisation approach during 2007 to improve how we decide which work we take forward.

We formulated a set of draft principles under the headings of Impact, Strategic Significance, Risks and Resources and invited comments from partners and other interested parties. From this consultation, we expect to publish the final version of our prioritisation principles later in 2008.

We created a robust and easy-to-use system for staff to use when prioritising our work. The system is based on our prioritisation principles, and offers guidance to staff across the OFT on deciding which pieces of work should be taken forward.

We have also ensured that our prioritisation approach is built into our annual business planning process and our Effective Project Delivery Framework.

www.of.gov.uk/advice_and_resources/publications/reports/Evaluating/

Implementing the new consumer credit regime

Following the reforms introduced by the Consumer Credit Act 2006 (CCA06) we expanded, strengthened and redeveloped our consumer credit functions during 2007 in order to prepare fully for the new regime coming into force in April 2008.

We designed a new risk-based approach to the assessments of credit competence, focussing our resources on those credit activities where the likelihood of serious and significant consumer harm would be highest if traders that did not have sufficient levels of integrity or credit competence to carry out those activities were allowed to operate within the market.

We have designed two new forms to gather evidence of credit competence from the relevant traders and have put in place effective partnership agreements within each local authority Trading Standards Service region so that visits to verify competence can be carried out on the OFT's behalf.

We have issued revised guidance on fitness and requirements for consumer credit licence holders and applicants, as well as a statement of policy on civil penalties for failure to comply with requirements. We have also issued guidance on the risk-based approach to competence assessments.

www.of.gov.uk/creditreform

Summary of our performance against our commitments

Delivering high-impact outcomes

Annual Plan 2007–08 commitment

We want to make the most effective use of all of our resources by focusing on those areas of work which will achieve the highest gains, either directly or indirectly. We will systematically prioritise all work across the office in order to have the highest impact and greatest effect.

In our enforcement work we will concentrate our action on areas where we believe there is the most consumer harm. We aim to focus on preventing and ending serious misconduct and increasing overall compliance levels, either as a direct consequence of our action or through wider deterrence or educational effects.

Our performance

- In September 2007 we issued a consultation on our new prioritisation principles.
- In March 2008 we published a report on the impact on productivity of the end of retail price maintenance on books.
- We engaged with 13 airlines that did not include all fixed, non-optional costs in prices on their websites.
- We issued a Statement of Objections against certain major supermarkets and dairy processors concerning diary retail prices.
- British Airways agreed to pay a penalty of £121.5 million for colluding over the price of long-haul passenger fuel surcharges.
- We took court action over personal current account unauthorised overdraft charges.
- We were successful in our Appeal to the House of Lords, ensuring that section 75 of the Consumer Credit Act 1974 applies to overseas transactions.
- We brought criminal charges against three businessmen suspected to be involved in a marine hose cartel.

Annual Plan 2007–08 commitment

We will use our market-wide tools to raise industry standards, increase business and consumer awareness and remedy generic issues of market failure. We will focus on empowering consumers, increasing effective self-regulation, and dealing with structural defects in markets.

In our advocacy and policy work we will focus our attention on markets where we believe that regulations may be harmful and unnecessary or market structures hinder competition. We will use our market expertise and experience to influence and educate policy makers, representative organisations and other interested parties in order to ensure that they are aware of issues relating to supply and demand, and that they take account of competition and consumer concerns when they are relevant to their work.

Our performance

- We strengthened and redeveloped our consumer credit functions during 2007 in order to prepare fully for the new regime coming into force in April 2008.
 - We warned 13 debt collection agencies and financial institutions that they needed to take positive steps to improve compliance with specific areas of our debt collection guidance.
 - We completed two high profile scams campaigns.
 - We launched a market study into retail banking.
 - Following a market study we made recommendations to Government on changes to the Pharmaceutical Price Regulation Scheme.
 - Two codes of practice have achieved Stage Two approval this year, with a further one achieving Stage One approval.
-
- In January 2008 we published revised guidance on fitness and requirements under the Consumer Credit Act 2006.
 - We published comprehensive guidance for policy makers on completing Impact Assessments in competition cases.
-

For a full list of our achievements against our 2007–08 Annual Plan commitments please see Annexe H.

Spending

During 2007–08, the OFT spent £25.9m on achieving this objective. This money was allocated as follows:

Staff costs	£20.6m
Litigation	£1.4m
Other operating costs	£3.9m

Key statistics

The focus of our work has shifted towards delivering high impact outcomes. To achieve this we have used our resources to deliver the most benefit for consumers and the wider economy. As a result of this approach we have seen a drop in the number of projects that

we have in progress at any one time. However, the work that we have taken forward has resulted in consumer savings of around £326 million per year on average for the three year period 2005–06 to 2007–08.

From 1 April 2007 to 31 March 2008:

- | | |
|---|--|
| <ul style="list-style-type: none">• We conducted 112 merger investigations. | <ul style="list-style-type: none">• We have published two Statements of Objections. |
| <ul style="list-style-type: none">• We referred 10 cases to the CC. | <ul style="list-style-type: none">• We have achieved 41 successful enforcement outcomes under consumer protection legislation. |
| <ul style="list-style-type: none">• In five cases we accepted undertakings in lieu of reference. | <ul style="list-style-type: none">• We have received and published responses to two super-complaints within the 90 day period. |
| <ul style="list-style-type: none">• We responded to 937 complaints of anti-competitive behaviour which around 20 per cent merited closer examination. | <ul style="list-style-type: none">• We have launched three market studies. |
| <ul style="list-style-type: none">• We launched two formal investigations under the Competition Act 1998 and/or Articles 81 and 82 of the EC Treaty. | <ul style="list-style-type: none">• We have published two market study reports. |

Becoming a centre of intelligence and excellence

We want to capture, analyse, coordinate and make best use of all of the information, understanding and experience available to us, internally and externally, nationally and internationally, so that we are able to make fully informed decisions and achieve high quality and effective outcomes.

During this year, we worked to enhance the capability of Local Authority Trading Standards Services' Regional Intelligence Network, investigated key market sectors, helped prepare the UK for the implications of the Unfair Commercial Practices Directive, and intensified our efforts to evaluate the impact of our activities.

Pooling intelligence across the regions

The Regional Intelligence Network (RIN) was created in 2006 to enable Local Authority Trading Standards Services to maximise their impact on crime reduction and community well-being at local, regional and national levels. The OFT has responsibility for managing and developing the network. Our aim is to ensure Local Authority Trading Standards Services pursue a risk-based, intelligence-led approach to delivery at local level of coordinated and consistent services to businesses and consumers.

To build on the network, we appointed a strategic analyst to:

- provide the national assessment of issues facing Local Authority Trading Standards Services across England, Scotland and Wales
- lead the OFT's input into the Local Authorities Coordinating Office on Regulatory Services (LACORS) Control Strategy for TSS, setting out high level objectives for Local Authority Trading Standards Services across the UK
- help coordinate the management of intelligence across the network.

We have also:

- conducted a thorough assessment of the minimum requirements of the network
- launched two pilot trials to establish the business processes of a fully integrated network supported by an effective IT system
- continued to work with TSS through the network to identify and share market intelligence, for example to help us identify sources of greatest consumer detriment.

Making the network more sustainable has been a key challenge in 2007–08, and on the basis of its success, we achieved a cross-Government funding package with BERR and the Local Better Regulation Office (LBRO) that will enable the Regional Intelligence Network to continue until a long-term sustainable funding solution can be found.

Estimating consumer detriment

Identifying where consumers are experiencing the most problems and incurring the greatest losses helps us to set our priorities and focus the work of the OFT on markets that are not working well.

During the year, we commissioned a major survey through Ipsos MORI into detriment experienced by UK consumers.

The research was carried out in three stages:

- More than 10,000 people took part in the initial research, a representative sample of the adult population, taking into account factors such as age, gender, social grade, location and ethnicity. These participants were asked to identify up to six problems they experienced during the last year.
- Selecting from this initial group, around 2,000 face to face interviews were carried out, aiming to cover four levels of detriment based on participants' initial estimates of their losses:
 - less than £5
 - more than £5 but less than £100
 - more than £100, but less than £1,000
 - more than £1,000.

- From this group, nearly 1,000 people took part in second interviews to explore detriment levels in more depth. In total, 1,489 problems were examined to give insight into the type of problems consumers face and the impact of these problems.

We analysed the data, and published the resulting report in April 2008.

Consumer Detriment: Assessing the frequency and impact of consumer problems with goods and services:

www.offt.gov.uk/shared_offt/reports/consumer_protection/offt992.pdf

Improving sector knowledge

To fully understand the nature of the competition and consumer issues affecting key sectors, we continue to investigate a number of markets.

In the **healthcare** sector, we:

- launched a project to identify and scope potential high impact projects that we could undertake, building on our recent studies into the Pharmaceutical Price Regulation Scheme and the distribution of medicines

- identified a number of specific areas to research in depth
- consulted stakeholders to identify further areas that exhibit consumer and competition issues that we can help to resolve.

In the **banking and financial services** sector, we:

- commenced the well-publicised test case into bank charges for unauthorized overdrafts, which seeks to establish whether these charges are unfair under the Unfair Terms in Consumer Contracts Regulations (UTCCRs) 1999
- launched our market study into personal current accounts
- responded to the super-complaint from **Which?** about credit card interest calculations, which led to our report on Credit Card Comparisons, recommending that there should be a Financial Services Authority-operated credit-card price comparison website, and an associated consumer education programme
- took a leading role in Europe in considering access and governance arrangements for the introduction of the Single Euro Payments Area in 2008 and in implementing the Payment Services Directive in the UK in 2009.

We have worked with BERR and the European Commission to ensure the best possible implementation of the Unfair Commercial Practices Directive (UCPD) for UK consumers and fair-dealing business.

Bank charges:

www.oft.gov.uk/advice_and_resources/resource_base/market-studies/personal/personal-test-case/

Credit Card Comparisons report:

www.oft.gov.uk/shared_oft/reports/financial_products/oft978.pdf

Super-complaints:

www.oft.gov.uk/shared_oft/business_leaflets/enterprise_act/oft514.pdf

In the **bus sector**, we:

- worked closely with the DfT and the DfT's Bus Partnership Forum Steering Group on the competition provisions of the Local Transport Bill
- worked to help ensure that the revisions to the existing competition regime will safeguard beneficial competition while promoting more bus partnerships, and encourage greater cooperation between different bus operators or local transport authorities
- published draft competition guidance to help inform the debate as the Bill progresses through Parliament.

Implementing the Unfair Commercial Practices Directive

We have worked with BERR and the European Commission to ensure the best possible implementation of the Unfair Commercial Practices Directive (UCPD) for UK consumers and fair-dealing business.

Our early, high-level, and intensive involvement has been crucial, as the Directive will introduce a number of new legal concepts to UK consumer protection law, and much of our work has been helping stakeholders to gain a clear understanding of these concepts and their likely impact.

We focused on two key goals:

- to make sure that the Consumer Protection from Unfair Trading Regulations 2008 and the Business Protection from Misleading Marketing Regulations 2008 which implement the Directive, provide protection for consumers without preventing innovation by honest traders
- to ensure that the enforcement provisions are functional and effective.

During this work, we successfully made the case to BERR to give the OFT and Local Authority Trading Standards Services criminal powers to enforce the regulations in their criminal sanctions consultation of early 2007.

Consultation was key to drafting guidance on the regulations, and we offered an unprecedented level of early involvement to a core group of stakeholders. This work consisted of a series of meetings at which we shared early drafts with the group and invited comments and changes, ahead of wider consultation.

Once the guidance was developed, we:

- had further discussions and debates with stakeholders before publishing Interim Guidance at the end of March 2008
- created and rolled out a detailed training programme for enforcers, delivered to more than 2,300 Trading Standards Officers in regional seminars all over the UK.

Consumer Protection from Unfair Trading Regulations 2008, Interim Guidance:

www.oft.gov.uk/shared_oft/business_leaflets/530162/oft931int.pdf

A basic guide for business:

www.oft.gov.uk/shared_oft/business_leaflets/530162/oft979.pdf

Evaluating the impact of our actions

Identifying the impact of our work is becoming increasingly important, and key to identifying future priorities.

To support this, during the year we:

- ran a project to raise awareness and build capability for impact estimation and evaluation throughout the organisation
- offered training on impact estimation for teams across the OFT and participants reported that their projects had benefited from the process of estimating impact.

Most large projects now have impact estimation plans which outline:

- what impact the project intends to have if it is successful
- key indicators of success
- how to monitor those indicators.

In addition to embedding our impact estimation plans across the OFT, we:

- commissioned independent research on deterring future anti-competitive activity to develop our thinking on measuring the wider benefits of our competition interventions (report discussed further below)

- published and consulted on a discussion document to generate a wider debate on the research findings and received positive and constructive feedback from respondents.

By implementing impact estimation and carrying out independent evaluation research, the OFT is better equipped to:

- estimate the direct financial benefits, and some of the wider benefits, of its interventions in the market, including market studies
- identify research that will help us to better understand in the future the benefits to consumers as a result of OFT intervention.

Evaluating our taxi study

In October 2007 we published Europe Economics' independent evaluation of the impact of the recommendations made by the OFT in our 2003 market study into the taxi industry.

It found that since the market study:

- about one-third of local authorities with caps on the number of taxi licences have removed such limits
- the resultant increase in taxi numbers has increased taxi availability, and has led to time savings for passengers and increased demand for taxi services

- the failure to adjust regulated fare levels downwards following the removal of caps on taxi licences led to an over-supply of taxis in many areas, and consequently to a loss of productive efficiency in the taxi sector.

The OFT hopes that the findings of this evaluation will feed in to the Department for Transport's comprehensive review of taxi regulation that is scheduled to take place in 2008.

Proving the power of the deterrent effect

In evaluating the impact of some of our projects, it is important to look beyond direct financial benefits. We published an independent piece of research on the deterrent effect of competition enforcement, carried out by Deloitte.

The report uses surveys of competition lawyers and businesses to assess the extent to which the OFT or Competition Commission's respective enforcement work in the areas of merger control and competition law deters other potential mergers and possible infringements.

The report found that:

- the deterrent effect is significantly greater than the direct effect of enforcement in all areas of merger control and enforcement of competition law against both anti-competitive agreements and conduct

This is the first time the OFT has commissioned research into the wider benefits of competition enforcement.

The research confirms that the OFT's merger control and competition law enforcement work plays an important role in preventing other anticompetitive behaviour from taking place.

- the ratio of proposed mergers abandoned or modified on competition grounds to those blocked or modified by the OFT is approximately five to one
- according to the survey of competition lawyers, the ratios of agreements and initiatives abandoned or significantly modified because of a risk of OFT investigation to those which actually resulted in a CA98 decision for the period 2000–06 were five to one for cartels, seven to one for commercial agreements and four to one for (Chapter II-type) abuses. The scale of deterrence calculated from the business survey was higher than in the legal survey (16 to 1, 29 to 1 and 10 to 1 respectively).

This is the first time the OFT has commissioned research into the wider benefits of competition enforcement.

The research confirms that the OFT's merger control and competition law enforcement work plays an important role in preventing other anticompetitive behaviour from taking place.

The ratios found in the report suggest that the deterrent effect of OFT work could bring consumer savings which are several times our estimates of those resulting directly from competition enforcement and merger control, which were £192m annually over the period 05–06 to 07–08.

www.of.gov.uk/advice_and_resources/publications/reports/Evaluating/

Consulting on new approaches to mergers

The guidance we give on mergers aims to strike a careful balance by protecting UK consumers from the risk of harm posed by anti-competitive mergers without imposing disproportionate costs on taxpayers and business.

As we now have more than five years of practical experience in applying the merger control provisions of the Enterprise Act 2002, during the year we completely reviewed our procedural guidance for dealing with mergers.

As a result, we drafted new guidance, taking account of:

- our aim to increase the robustness, transparency and efficiency of our procedures while maintaining the integrity of our role alongside the CC
- the recast EC Merger Regulation (139/2004)
- judicial guidance
- ongoing dialogue with private sector representatives, including helpful input from two OFT workshops held in London and Brussels to gather feedback on our merger procedures in practice from the external 'user community'
- international best practice, including the Recommended Practices for Merger Notification Procedures published with our partners in the International Competition Network (ICN).

In March 2008, we presented our draft guidance for public consultation.

During the year we also continued to revise our systems and processes for reviewing mergers to:

- focus resources on those that are really problematic
- ensure that where possible we can resolve problems early through undertakings
- ensure that when we do need to send cases to the CC we do so in as efficient and seamless a way as possible.

After public consultation, in November 2007 we published revised guidance on the so-called 'markets of insufficient importance' – also known as 'de minimis' – exception in merger cases. This means using thresholds to take many very small mergers out of the scope of the merger regime. The OFT retains its discretion to refer some cases below the new threshold where the impact of the merger is likely to be particularly significant, such for example mergers that increase the risk of cartel behaviour where there is evidence of collusion already.

Since publishing the guidance, we exercised this power in three cases, where the costs to the public purse of a reference to the CC would be disproportionate to the size of the concerns raised by the merger. Every respondent to our consultation programme on this welcomed the OFT's initiative, and the consultation exercise itself has significantly improved the clarity of the final text.

Mergers: Jurisdictional and procedural guidance, Draft consultation document:

www.offt.gov.uk/shared_offt/consultations/oft526con.pdf

Mergers – Substantive assessment guidance:

www.offt.gov.uk/shared_offt/business_leaflets/enterprise_act/oft516b.pdf

Collaborating on consumer education

We continue to innovate in how we work with partners to build consumer awareness.

We worked with LLU+ at London South Bank University to develop and pilot the first phase of a toolkit of consumer education materials targeted at students taking literacy and numeracy courses in further education.

Young consumers can be particularly hard to reach, and the toolkit makes learning relevant by focusing on real life consumer challenges like buying a mobile phone. The toolkit, which will be launched in spring 2008, helps build confidence and capability in core consumer skills including:

- researching
- analysing the features of a product or service
- comparing between options
- identifying sources of help.

We also raised consumer awareness for students by being the main sponsors of the annual Young Consumers of the Year competition, attracting participation from 190 schools.

Our overall aim in consumer education is to give consumers the skills and knowledge to function confidently, effectively and responsibly when buying goods and services.

To help do this, we work with more than 74 partners including consumer organisations, charities, and Government bodies through the Consumer Education Alliance.

For example, during the year, Alliance members helped to:

- communicate the key messages of the OFT's Internet Shopping report, and share their own work in this area
- evaluate the new consumer toolkit targeted at students.

We also, through Consumer Direct, supported National Consumer Week, which this year was about internet shopping. This enabled us to raise awareness of an area where knowledge of consumer rights is low.

Consumer education:

www.offt.gov.uk/oft_at_work/partnership_working/consumer-alliance/alliance/

Strengthening media relations

The media is key to our role in helping to influence the behaviour of business and consumers in a way that helps markets work well. We strengthened our relationships with a wide range of media, and Consumer Direct also ran training sessions for journalists on consumer law.

We have significantly increased press coverage through:

- increased media training so we now have spokespeople available to speak on a variety of subjects at any time
- proactive stories targeted at trade press including changes to credit licensing, recruitment, behavioural economics, estate agency, internet selling and advice on reporting cartels.

We have also raised our profile in Scotland through one-to-one interviews with key Scottish media during the Chairman and Chief Executive's visits.

Summary of our performance against our commitments

Becoming a centre of intelligence and excellence

Annual Plan 2007–08 commitment

We will monitor markets proactively and systematically, taking account of all market aspects. We will enhance internal systems to ensure that information and knowledge is properly managed and coordinated under our new organisational structure.

We will ensure that we are aware of, and able to influence, the latest developments, innovations and research in policy and enforcement best practice, including engaging with national and international fora.

We will undertake critical and transparent analysis of our work, and use the results to inform our work and overall strategy going forward.

We will inform and educate our partners and stakeholders.

We will provide effective education and advice for consumers and businesses, including through Consumer Direct.

Our performance

- We have continued to work with Local Authority Trading Standards Services in developing the Regional Intelligence Network.
- We have increased our understanding of the healthcare, banking and financial services sector.
- We conducted an informal consultation including a public hearing to inform our thinking on private actions. We published our recommendations to Government in November 2007.
- We have published and consulted on our approach to impact to generate wider debate.
- We have published an independent evaluation of our Taxi Study in October 2007.
- In November 2007 we published a report into the deterrent effect of competition enforcement by the OFT.
- We have published our merger modelling methodology on consumer savings in April 2007.
- We produced guidance and a detailed training programme for enforcers on the Unfair Commercial Practices Directive.
- In April 2007 we published 'A quick guide to competition & consumer protection laws' and 'A short guide on distance selling'.
- We have published merger guidance on 'de minimis' markets.
- In March 2008 we have published draft revised mergers jurisdictional and procedural guidance for consultation.
- We have successfully strengthen our media relations.
- Working with LLU+ and South Bank University we have developed and piloted a consumer tool kit aimed at students.

For a full list of our achievements against our 2007–08 Annual Plan commitments please see Annexe H.

Spending

During 2007–08, the OFT spent £8.4m on achieving this objective. This money was allocated as follows:

Staff costs	£6.1m
Other operating costs	£2.3m

Working in partnership

We work closely with our partners and stakeholders to deliver common objectives that benefit consumers. Over the past year, this has included running awareness campaigns and sharing information to prevent rogue traders from continuing their activities. We also assisted some of our partners on the formulation of policy and guidelines.

Working together across the UK

There are around 200 Local Authority Trading Standards Services across Great Britain, alongside the Department for Enterprise, Trade and Industry in Northern Ireland. Local Authority Trading Standards Services are our key partners in implementing the consumer law regime and we share enforcement powers with them, and pool intelligence. We greatly benefit from their local focus and feedback.

We strengthened this relationship this year by working with Local Authority Trading Standards Services to complete a Programme for Joint Action to deliver:

- greater awareness of the benefits delivered for local authorities by TSS for example, through a dedicated handbook for local councillors highlighting the importance of Local Authority Trading Standards Services' work to many local government agendas
- improved gathering and sharing of information
- an agreed vision for providing consumer intervention and advice services
- easier ways to identify and share good practice.

During the year, our support for Local Authority Trading Standards Services included:

- advising them on using civil enforcement powers available to them under the Enterprise Act
- championing to central Government the outcomes achieved by Local Authority Trading Standards Services
- helping them to maximise the impact of the intelligence they gather, for example through the Regional Intelligence Network
- ensuring that a fair trading indicator was included in the performance framework for local government in England.

Our new Edinburgh office has helped us strengthen our relationships with Local Authority Trading Standards Services in Scotland, together with other key stakeholders such as the Scottish Executive and Convention of Scottish Local Authorities. To help do this, we developed a bespoke handbook for Scottish local councillors about the work of TSS.

Estimates of our impact in Scotland suggest that every year, the OFT directly saves Scottish consumers at least:

- £7 million through competition enforcement
- £5 million through merger control
- £1 million through tackling scams
- £10 million through market studies.

These figures are based on apportioning consumer benefits estimated for the whole of the UK according to GDP.

We have helped Local Authority Trading Standards Services in Wales to:

- formulate and publicise a strategic vision for the future delivery of their services
- conduct and publish key research work on establishing the economic impact of their work in a report *Making a Difference*, launched in March 2008
- produced a bespoke Welsh handbook for councillors highlighting the importance and impact of Local Authority Trading Standards Services' work.

Helping 'Save Xmas' through consumer campaign

In response to the collapse of the Farepak hamper company, the Treasury gave £1 million to the OFT to educate consumers about the different options available for Christmas saving.

We:

- devised a campaign that would reach the target audience of Farepak victims and people on low incomes through face to face group sessions, run in partnership with local organisations and Citizens Advice across the UK

- produced a pack for facilitators that gave guidance to enable less experienced people to deliver the sessions in their own communities.

Ipsos MORI were commissioned by the OFT to evaluate the Save Xmas Campaign. Emerging evaluation findings suggest that 95 per cent of consumers attending training sessions found them useful.

Two in five said they intend to make changes to the way they save following a session. Ipsos MORI will be following up trainees shortly to further explore these planned changes in savings behaviour. Facilitators also reported that the sessions had led some consumers to consider and take more control of other areas of their finances. As people were encouraged to run the course in their own communities, the campaign messages have been received in locations ranging from housing associations to prisons.

The partnership approach demonstrated through the Save Xmas Campaign has expanded and strengthened our relationships with key stakeholders at a local and national level. It has also enabled us to deliver training to a hard-to-reach audience, empowering them to take greater control over their savings.

Working with Local Authority Trading Standards Services to protect consumers

Action by the OFT in close partnership with South Lanarkshire Trading Standards achieved a successful settlement against MB Designs (Scotland) Limited. This double-glazing and home improvement business had attracted hundreds of consumer complaints.

In November 2007, the company's directors, Martin Black and Paul Bett, gave a formal undertaking to the Court of Session in Edinburgh under Part 8 of the Enterprise Act 2002. This undertaking restrains MB Designs (Scotland) Limited and its two directors from breaches of the:

- Sale of Goods Act 1979
- Supply of Goods and Services Act 1982
- Unfair Terms in Consumer Contracts Regulations 1999.

The OFT had previously obtained an interim enforcement order in June 2005, following numerous complaints from consumers about the quality, description and fitting of MB Designs' products and their contract terms. The OFT agreed to accept undertakings in lieu of court proceedings.

The settlement obtained secures what would have been gained if the OFT had fought and won the trial.

Ongoing action

Most local authorities run assured trader schemes which aim to give consumers a reliable way of finding trustworthy local businesses.

The OFT supports the Local Authority Assured Trader Scheme Network (LAATSN) to help:

- local schemes meet nationally agreed standards
- monitor performance.

www.offt.gov.uk/oft_at_work/consumer_initatives/trader/laatsn

Creating a consumer enforcement toolkit

We assisted the Organisation for Economic Cooperation and Development (OECD) in producing a toolkit which provides a guide to the effective implementation of consumer enforcement policy. Among other areas, the toolkit focuses on the:

- economic rationale behind consumer enforcement
- measurement of consumer detriment
- tools available to address such detriment.

Our involvement follows on from earlier work with the OECD which looked at the economics underpinning consumer policy and behavioural economics.

Listening to our stakeholders

We consult widely with our stakeholders, and we are committed to gathering their feedback. We commissioned a qualitative stakeholder reputation and perception audit, with information gathered through face to face interviews with key external stakeholders.

The audit revealed that:

- The consumer groups interviewed tended to feel they have close and effective relationships with the OFT.
- Some business groups reported a more distant relationship with the OFT, and felt that it was not sensitive enough to the circumstances of business. However, the OFT was felt to be becoming more open to business groups, and ready to engage with them earlier in important discussions.
- Government colleagues with more frequent contact were more likely to find the OFT to be responsive and accessible.
- Stakeholders with local authority interests, largely in connection with Local Authority Trading Standards Services, reported

that their relationship with the OFT had become closer over the recent past. Some, however, wanted the OFT to be as open with them as they felt some other regulators were.

- Fellow statutory regulators look on OFT as the senior authority in their field, but wanted the OFT to show a greater openness and spirit of partnership.

Helping to drive down school uniform prices

We worked with the Department for Children, Schools and Families (DCSF) on their guidelines to schools, which were published in October 2007. Prior to this, we carried out a fact-finding review of the school uniforms market, published in September 2006, which found that exclusive arrangements between schools and retailers meant that prices for items bought from these retailers were more expensive than items from other retailers and supermarkets.

Following these findings, we:

- wrote to all schools urging them not to enter into exclusive arrangements with retailers
- advised the DCSF on its guidelines that recommend that state schools should avoid, if possible, adopting exclusive supply or retail arrangements.

Summary of our performance against our commitments

Working in partnership

Annual Plan 2007–08 commitment

We will raise the profile and quality of external engagement across all of our work.

We will work with our partners, and influence others, to make markets work well for consumers, including reducing the distortions of markets created by Government actions, working with TSS to ensure a risk-based, proportionate and coordinated approach to their work, and cooperating with sectoral regulators, the European Commission and other National Competition Authorities to ensure effective enforcement of the competition regime in the UK.

Our performance

- We have continued to develop our relationships with Local Authority Trading Standards Services.
- We have continued to develop our relationships with key stakeholders in Scotland, Wales and Northern Ireland.
- We have appointed Stakeholder Relationship Managers for all our key stakeholders.
- A comprehensive stakeholder evaluation has been conducted within the OFT.
- We conducted a qualitative stakeholder reputation and perception audit.
- Stakeholder engagement has been incorporated into Effective Project Delivery guidelines.

- Working with South Lanarkshire Trading Standards we achieved a successful settlement against MB Designs.
- Working with OECD we produced a toolkit which provides a guide to the effective implementation of consumer enforcement policy.
- We have enhanced knowledge sharing by establishing sub-groups of the Concurrency Working Party in areas of particular interest and setting up a concurrency page on the OFT website to promote information sharing.
- In July 2007 we represented the UK at an international conference on competition in regulated sectors at the Korean Development Institute. OFT presented and discussed the institutional design and functioning of the concurrency system.
- Following discussions with key stakeholder we published our statement of consumer enforcement protection principles in November 2007.
- We have secured a competition assessment module within Better Regulation Executive's Impact Assessment training for other Government departments.
- We worked with DCSF on their guidelines to schools on school uniforms.

For a full list of our achievements against our 2007–08 Annual Plan commitments please see Annexe H.

Spending

During 2007–08, the OFT spent £21.3m on achieving this objective. This money was allocated as follows:

Staff costs	£3.4m
Other operating costs	£17.9m (includes Consumer Direct)

Developing the OFT as an organisation

We want the OFT to be as efficient an organisation as possible. We aim to make the OFT an employer of choice, by providing a strong framework of training and career management in order to be able to attract, develop and retain highly skilled and motivated people.

During the year, we worked towards improving our efficiency, productivity and impact, including how we can deliver projects more effectively, become better at sharing intelligence, knowledge and know-how, and win the competition for employees with key skills.

Delivering projects more effectively

We are focused on the key performance benchmark that our work will deliver direct financial benefits to consumers of at least five times the OFT's cost to the Exchequer.

To help us meet this target for our complex and diverse range of projects, we have implemented the Effective Project Delivery Framework which:

- enables us to work to consistent procedures across all projects and groups within the OFT
- helps to manage and reduce risk
- increases the visibility of projects and project performance through the organisation
- enables us to take a flexible, project-centred approach to the OFT's working practices
- facilitates staff development and the sharing of skills and capability across the OFT.

Our vision for Effective Project Delivery will be achieved when we have:

- clearly defined projects – in terms of the scope and objectives of what needs to be done
- clearly defined outputs and hard deadlines
- clearly defined responsibilities and decision-making accountability

- clearly allocated resources – to make sure that those responsible have the resources they need to be able to deliver the required outputs to the required standard by the deadline
- integrated team working – everyone in the team working together, doing their part, cooperatively and supportively, to deliver high quality output for the OFT.

The Effective Project Delivery Framework also provides guidance on best practice advice, tools and templates, and its use and performance will be continually evaluated.

Creating a knowledge management culture

The OFT has taken its first steps towards our comprehensive knowledge management strategy, which will ultimately improve:

- our organisational culture
- the way we work
- how we harness the power of Information and Communication Technology (ICT).

As an investigative organisation dealing with highly complex cases and analyses, it is crucial that we continue to improve how we manage the knowledge we gather and build. By managing and sharing knowledge more effectively, the OFT will increasingly deliver high impact work.

During this year, we have started to put in place the foundations for effective knowledge management. For example, we have:

- conducted a detailed analysis of what our knowledge needs are as an organisation, how we harness our knowledge now, and how we would like to make better use of information in the future
- used this analysis to form the foundations of our evolving knowledge management strategy
- identified areas for further focus, including challenging issues such as knowledge ownership, personal knowledge management, technology and security and training.

Sharing our know-how

We set up a team to gather and disseminate know-how from across the OFT relating to our competition, consumer and markets legislative tools.

In conjunction with developing our comprehensive knowledge management strategy, the know-how team:

- builds on the best know-how sharing practices that already exist within parts of the OFT
- delivers, embeds and monitors these best practices across the organisation.

Key benefits include:

- enhancing support for our casework
- increasing efficiency in the way we work
- helping us to deliver our high impact outcomes
- promoting our learning culture
- developing the skills and talent of our staff.

Since its creation, the know-how team has:

- established a network of 'know-how liaison officers' who gather know-how from their teams across the office
- collated know-how contributions
- shared contributions through a fortnightly know-how bulletin across the whole organisation

- set up intranet pages to store know-how thematically, making it easy to search for common needs, such as our updated internal CA98 casework guidance
- developed an ongoing programme of regular cross-office seminars covering a variety of subjects relevant to our work, led by internal and external speakers
- created knowledge sharing fora and tools to enhance cross-office discussion on issues affecting our work.

Managing intelligence

Across the OFT, we enhanced how we gather and analyse intelligence through a number of activities including:

- introducing a new intelligence-led process to identify new cases and issues and to prioritise casework
- trialling 'focus areas', where we target resources to proactively gather information on chosen topics and identify specific issues that we should consider for investigation
- recruiting a strategic intelligence analyst
- working to improve our understanding of market issues, for example by broadening our information sources and making better use of Consumer Direct data
- supporting pilot projects through the TSS Regional Intelligence Network to establish business requirements for an intelligence database.

Gaining flexibility and productivity

We introduced the concept of the two-project model, an approach to working where staff split their time between two or more discrete projects.

This has a number of advantages over past practice, including:

- giving us greater flexibility in balancing workload, as the down-time on one project can much more easily be filled with work on another
- building our capability by broadening the experience and perspective of individuals
- giving individuals new opportunities to develop their skills in other areas
- promoting sharing of best practice across the organisation and a better understanding of how other areas work.

Although this new way of working is aimed primarily at those whose work is structured around discrete projects, this has also created opportunities for some staff who in the past had focused solely on operational or programmatic work, but who now have the opportunity to gain new skills and experience by taking on project work.

We estimate that around three quarters of staff whose work is structured around discrete projects are now working on two or more projects. We will be working to extend this to more people across the OFT as new projects come on line.

Looking ahead

We launched an expanded 'Horizon Scanning' team in the autumn of 2007 with two objectives:

- to maximise the number of high quality project proposals available to choose between
- to identify medium term trends that could affect the operation of the OFT.

Recent successful projects include:

- opening and facilitating a discussion forum on the OFT intranet to act as a catalyst for new ideas, trigger discussion, and share insight up, down and across all parts of the OFT
- establishing a group of public sector procurers to experiment using innovative econometric tools to try and detect evidence of bid-rigging
- organising and facilitating discussion with other agencies about how best to choose and develop projects
- developing over 20 initial project ideas to a stage where a decision about whether they should be taken forward can be made.

Identifying emerging trends

We commissioned GfK NOP to conduct research with a wide range of stakeholders into emerging trends that might affect in the medium term:

- consumer behaviour
- business practice
- the OFT as an organisation.

This research involved using structured online discussion fora with stakeholders to facilitate discussion amongst a panel of senior figures from a diverse range of fields. The outputs will be used to help inform the OFT's analysis of markets, and our strategic decision making.

Competing for the best talent

After our major reorganisation across the OFT, followed by a recruitment freeze, in October a new recruitment team:

- successfully filled over 100 posts through effective internal lateral transfers and promotions
- attracted experienced and highly skilled staff from other public sector and commercial organisations.

During the year we recruited 98 new permanent staff. At 31 March 2008, the OFT had 587 permanent staff compared with 649 at the same point in 2007. We adhere to the Civil Service recruitment principles of open and fair competition and selection on merit, and we follow the Civil Service Commissioners' Recruitment Code. 22 candidates were recruited during the year under the arrangements for permitted exceptions to the code. This number includes four loans or secondments from other organisations – three from Local Authority Trading Standards Services and one from a private sector law firm – bringing in specific skills on a short term basis, aimed at promoting and strengthening stakeholder relationships. We have also recruited 18 people on short term appointments, to cover short term vacancies in project teams, or while we are recruiting for permanent employees through open competition. Short term appointments have been included

for the first time, following clarification last year by the Office of the Civil Service Commissioners of the circumstances in which short term appointments could be made and the fact that they should be treated as exceptions.

This achievement was in the face of fierce competition for the best candidates, and tight constraints on salaries. Looking forward, the recruitment team is focused on the challenge of retaining talent against higher-paying competitors both within the public and commercial sectors.

The team has been particularly successful at recruiting for traditionally hard to fill posts, such as for lawyers and economists by:

- using effectively targeted advertising campaigns
- improving the careers pages to ensure the OFT is marketed as effectively as possible and to make the OFT an employer of choice.

Further improvements are currently in progress, including:

- streamlining current recruitment policy and procedures
- updating all related forms and tools
- gaining better recruitment analysis through improved reporting information.

www.oft.gov.uk/about/careers

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 £54,000.

Our internal audit was provided independently by Chiene + Tait.

Creditor payment, policy and performance

The OFT pays all supplier invoices in accordance with the Government's payment performance targets. These require us to pay all invoices not in dispute within 30 days, or within the agreed contractual terms. They also require us to pay 100 per cent of invoices, including disputed invoices, once the dispute has been settled on time within these terms. In 2007–08, the OFT paid 99 per cent of invoices within this timespan. Payments are only made once they have been properly authorised within the terms of the OFT's scheme for financial validation.

Diversity and Equality

2007–2008 has seen us continuing the progress in promoting diversity and equality that was reported in last year's Annual Report.

The very first full monitoring exercise has been completed in line with government guidelines. We received a very impressive response rate, with 83 per cent of our staff responding. This will now form part of an ongoing review and more

strategic development of diversity issues in the future.

During the year, we have also undertaken consultation exercises and revised our policies concerning harassment and bullying, grievances and disciplinary actions to ensure that these are in line with best practice, and successfully introduced a compulsory training course for all new personnel on legal obligations and key issues. We also ran our 'Personal Effectiveness Training for Ethnic Minority Staff' course through the Cabinet Office. This is a well respected development initiative in keeping with our developing agenda and is proving a real success.

We have also appointed a senior officer to the role of Director of Organisation Development, to drive the diversity agenda and report directly to the Chief Executive. A key challenge will be to review how we can ensure that diversity and equality considerations relate to our business and operational objectives. This will include the development of an organisation position statement, the review and relaunch of our staff Network Groups and the development of relevant plans and policies.

Employee Consultation

We have continued our commitment to inform and consult with staff, ensuring that everyone receives information relevant to their work and the running of the OFT, and that there are sufficient opportunities to provide feedback. We have continued to develop and

improve our intranet as well as using e-mail, regular newsletters and face to face meetings to offer effective two-way communication throughout the organisation. An annual employee attitude survey, benchmarked against similar government organisations, provides further feedback to managers at every level.

We have regular contact with the trade unions through HR (Employee Relations) and a series of meetings for the purposes of consultation and negotiation. These include the Departmental Whitley Council (DWC) that meets every three months, a regular meeting between HR and the unions every six weeks, and further meetings to negotiate or consult on specific issues such as pay and new policies.

Health and Safety

We recognise and accept our legal responsibilities in relation to the health, safety and welfare of employees and for all people using our premises. We aim to comply with the Health and Safety at Work Act 1974 and all other legislation as appropriate.

Diversity of staff at 31 March 2008

	Women	From ethnic minorities	With disabilities
All staff	48.5%	22.0%	1.2%
Senior civil servants	26.2%	4.8%	0%
Senior managers	43.1%	8.3%	1.0%
Executive staff	51.2%	20.8%	1.5%
Clerical and support staff	56.0%	31.0%	1.2%

Ethnic background information was gathered in March 2008.

24% of staff did not state their ethnic background.

In future years, our new monitoring system will be able to capture data on the other diversity groups and enable our reporting on these aspects as well.

Diversity of staff recruited during 2007–08

Women	48.9%
People from Black and minority ethnic groups	48%
People with disabilities	0%

25% of recruits did not state their ethnic background.

19.3% of recruits did not state disability.

Summary of our performance against our commitments

Developing the OFT as an organisation

Annual Plan 2007–08 commitment

We want the OFT to be as efficient an organisation as possible. We aim to make the OFT an employer of choice, by providing a strong framework of training and career management in order to be able to attract, develop and retain highly skilled and motivated people.

We will develop the skills and talent of our staff and the framework in which we operate in order to ensure that we have the necessary human resource and appropriate operational support to achieve our goals.

Our performance

- Developed and implemented Effective Project Delivery Framework for all staff.
- We have developed a more flexible approach to project working.
- Developed a comprehensive corporate knowledge management strategy.
- Created a dedicated Know-how team to gather and disseminate cross-organisational know-how.
- We have enhanced how we gather and analyse intelligence, including conducting specific work on identifying emerging trends.
- We have created a dedicated Horizon Scanning team.
- We have successfully attracted experienced, highly skilled staff from other public sector and commercial organisations.

For a full list of our achievements against our 2007–08 Annual Plan commitments please see Annexe H.

Spending

During 2007–08, the OFT spent £22.3m on achieving this objective. This money was allocated as follows:

Human Resources	£2.5m
Finance	£2.0m (includes procurement)
Accommodation and office support	£11.4m
Other/capital/one-off project costs	£1.9m
Learning and development	£0.9m
IT	£3.6m

Focusing on the future

Focusing on outcomes

As part of the Government's Comprehensive Spending Review 2007 (CSR07), the OFT agreed a new performance framework for the period from April 2008 until March 2011.

The performance framework sets out the OFT's objectives, and gives measures against which Government will assess how effectively we are delivering. This brings a greater focus on outcomes of our activities.

The new performance framework:

- is organised around the elements of the OFT's vision
- forms the basis for our more detailed annual planning process, including the 2008/09 Annual Plan published in March 2008.

2008–09 objectives

Our key objectives and targets for the Comprehensive Spending Review 07 period are:

To deliver high impact outcomes

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

Key targets:

- To deliver direct financial benefits of at least five times that of our cost to the taxpayer.
 - To demonstrate the additional wider benefits of the OFT'S work such as increasing consumer and business confidence in markets and deterring future anti-competitive behaviour.
-

To be a centre of excellence and intelligence

- Monitor markets proactively, systematically and transparently.
- Evaluate the impact of our work, and use this evaluation to inform strategy and future work.
- Provide effective education and advice for consumers, including through Consumer Direct.
- Promote innovative approaches in our work.

Key target:

- To be acknowledged as a thought leader, developing innovative approaches to our work, using intelligence effectively, and having a wider impact on markets through our advocacy of competition.
-

To work in partnership

- Work with our partners, to better achieve objectives 1 and 2.

Key target:

- To demonstrate increased effectiveness of OFT work by engaging the strengths of other bodies and organisations, and by increasing mutual awareness and understanding.
-

Develop the skills and talent of OFT staff to deliver high quality outcomes and add skills to the economy

Key target:

- To have a comprehensive career and knowledge development programme for our people.
-

Resource Accounts

Introduction

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

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.

Further information about the work of the Review Body can be found at www.ome.uk.com

Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' recruitment code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Unless otherwise stated, the officials covered by this report hold appointments which are open-ended until they reach the normal retirement age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Remuneration Committee

The OFT remuneration committee determines the salaries paid to Senior Civil Servants within the OFT. During 2007–08 the committee comprised non-executive board members (Bronwyn Curtis and Lord Norman Blackwell) and Philip Collins.

Chairman's and Board Members' Remuneration

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 Enterprise and Regulatory Reform.

The salary and pension entitlements of the most senior managers of the Department during 2007–08 were as follows:

Officials	2007–08			2006–07	
	Salary	Compensation for early retirement or loss of office	Benefits in kind	Salary	Benefits in kind
	£000	£000	£000	£000	£000
Mr John Fingleton <i>Chief Executive Officer</i>	265-270	–	0-5	255-260	5-10
Mr Bart Smith <i>Chief Operating Officer to 30 November 2007</i>	85-90 Full year equivalent 120-125	–	–	125-130	–
Mrs Christine Wade <i>Assistant Chief Executive, Consumer Advice and Trading Standards to 31 March 2008</i>	90-95	*50-55	–	100-105	–

Officials	2007-08			2006-07	
	Salary	Compensation for early retirement or loss of office	Benefits in kind	Salary	Benefits in kind
	£000	£000	£000	£000	£000
Mr Vincent Smith <i>Senior Director for Competition to 30 April 2007</i>	5-10 Full year equivalent 90-95	–	–	95-100	–
Mr Brian McHenry <i>General Counsel to 29 February 2008</i>	90-95 Full year equivalent 100-105	140-145	–	105-110	–
Mr Jonathan May <i>Executive Director, Policy and Strategy</i>	130-135	–	–	110-115	–
Mr Sean Williams <i>Executive Director, Markets and Projects from 1 June 2007</i>	135-140 Full year equivalent 160-165	–	–	–	–
Ms Sue Cook <i>Acting Director of Communications Division to 31 July 2007</i>	25-30 Full year equivalent 65-70	–	–	40-45 Full year equivalent 60-65	–

*Paid in April 2008

If a confidentiality agreement covers the terms of any compensation for early retirement or loss of office, details would not be disclosed in the above table.

Non Executive Board Members:

Mr Philip Collins <i>Chairman</i>	170-175	–	0-5	160-165	5-10
Lord Norman Blackwell	15-20	–	–	15-20	–
Mr Richard Whish	20-25	–	–	15-20	–
Ms Bronwyn Curtis	20-25	–	–	–	–
Mr Alan Giles	20-25	–	–	–	–
Professor Frédéric Jenny	20-25	–	–	–	–
Mr Allan Asher	15-20	–	–	15-20	–
Mrs Christine Farnish	–	–	–	0-5	–
				Full year equivalent 15-20	
Mrs Rosalind Wright	–	–	–	15-20	–

Mr Collins was appointed Chairman from 1 October 2005 for a period of four years.

Lord Blackwell was reappointed from 1 April 2007.

Mr Whish was reappointed from 1 April 2007.

Ms Curtis was appointed from 1 April 2007.

Mr Giles was appointed from 1 April 2007.

Professor Jenny was appointed from 1 April 2007.

Mr Asher was reappointed from 1 April 2007 and appointment ended on 31 March 2008.

With the exception of Philip Collins, none of the Non-Executive Board Members received benefits in kind.

Salary

'Salary' includes gross salary; performance pay and bonuses; overtime; London weighting or London allowances; recruitment and retention allowances; private office allowances; ex-gratia payments; and any other taxable allowances or payments. No employees, excluding Philip Collins and John Fingleton, received benefits in kind.

PENSIONS

Officials	Accrued pension at age 60 as at 31-3-08 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31-3-08	CETV at 31-3-07	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	£000
Mr Philip Collins <i>Chairman</i>	N/A	N/A	N/A	N/A	N/A	N/A
Mr John Fingleton <i>Chief Executive Officer</i>	5-10	2.5-5	121	61	36	–
Mr Bart Smith <i>Chief Operating Officer to 30 November 2007</i>	10-15	0-2.5	224	190	23	–
Mrs Christine Wade <i>Assistant Chief Executive, Consumer Advice and Trading Standards to 31 March 2008</i>	45-50	0-2.5	870	740	25	–
Mr Vincent Smith <i>Senior Director for Competition to 30 April 2007</i>	15-20 plus lump sum of 25-30	0-2.5	213	205	1	–
Mr Brian McHenry <i>General Counsel to 29 February 2008</i>	45-50 plus lump sum of 140-145	0-2.5 plus lump sum of 2.5-5	1,078	945	28	–
Mr Jonathan May <i>Executive Director, Policy and Strategy</i>	55-60 plus lump sum of 165-170	2.5-5 plus lump sum of 10-15	1,356	1,109	97	–
Mr Sean Williams <i>Executive Director, Markets and Projects from 1 June 2007</i>	0-2.5	0-2.5	21	–	17	–
Ms Sue Cook <i>Acting Director of Communications Division to 31 July 2007</i>	5-10 plus lump sum of 10-15	0-2.5 plus lump sum of 0-2.5	103	101	4	–

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 good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% 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' 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 in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for 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 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

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 values 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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefits accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The factors used to calculate the CETV were revised on 1 April 2007 on the advice of the scheme Actuary. The CETV figure for 31 March 2007 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2008.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of 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.

Pension Liabilities

The main pension schemes for employees are the Principal Civil Service Pension Schemes (PCSPS) which are largely non-contributory and unfunded. Although the PCSPS are defined benefit schemes, liability for payment of future benefits is a charge to them. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

The previous Chairman and Ex-Directors General of the OFT are not members of the PCSPS but are pensioned by analogy to that scheme thereby gaining benefits commensurate with their salary and service.



John Fingleton

Chief Executive Officer and Accounting Officer for the OFT
14 July 2008

Statement of Accounting Officer's Responsibilities

Under Section 5 of the Government Resources and Accounts Act 2000 the OFT is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources required, held, or disposed of during the year and the use of resources by it during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the OFT, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The Treasury has appointed the permanent head of the OFT (the Chief Executive Officer) as its Accounting Officer with the responsibility for preparing its resource accounts and sending them to the Comptroller and Auditor General.

In preparing the resource accounts, the Accounting Officer is required to comply with the Financial Reporting Manual prepared by the Treasury, and in particular to:

- Observe 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 Financial Reporting Manual, have been followed, and disclose and explain any material departures in the resource accounts;
- Prepare the accounts on a going concern basis.

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

Hierarchy of responsibility

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 consisting of three independent members (including two non-executive Board members) with one executive Board member and me in attendance, advises me on the adequacy of the audit arrangements and on assurances received in respect of risk management and internal control. The Executive Committee, chaired by the Chief Executive, advises the Board and implements policies on risk management and internal control. The Prioritisation Committee, chaired by an Executive Director, operated on behalf of the Executive Committee and Board to review and prioritise proposals for the allocation of resources to project work, with authority to commit resources to smaller tasks. Executive/Senior Directors and other senior post holders ensure that the OFT's risk policy and strategy are implemented in their operational areas and they advise the Board in monthly reports.

The purpose of the system of internal control

- The system of internal control is designed to manage risk to a reasonable level 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 the 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 the 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. The system of internal control that has been in place for the year ended 31 March 2008, and up to the approval of the annual report and accounts, accords with Treasury guidance. 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.

Capacity to handle risk

During 2006–07 the provider of our internal audit service, Chiene + Tait, undertook a review of the Office's risk policy, strategy and processes. The recommendations resulting from that review, which we accepted in full, were designed to strengthen our ability to identify and prioritise risks, to evaluate the likelihood of those risks being realised and the impact should they be realised, and in consequence to manage them efficiently, effectively and economically. The revised system of risk management was introduced on a phased basis during the 2007–08 year.

The risk and control framework

The framework for the management of risk is that the Board maintains an oversight and is also kept up to date with major corporate risks. Accountability for corporate risks rests with individual members of the Executive Committee. Delivering the management of risks is delegated through the organisation, leading to individual members of staff taking responsibility for managing specific risks which could affect the achievement of their objectives and targets, and for identifying opportunities which could enhance those objectives and targets. The Audit Committee provides further oversight and scrutiny of assurances, providing advice and support to the Board and the Executive.

The main structures and processes for identifying, evaluating, and managing risk are:

- The Board, which meets monthly, considers progress in and risks to, achieving the OFT's policies, aims and objectives;
- The Executive Committee ('ExCo'), which meets weekly, also considers progress in achieving the OFT's policies, aims and objectives. In addition, the ExCo provides oversight and assurance of the risk framework;
- Monthly reports to the Board from Executive/Senior Directors, identify the key risks affecting delivery of objectives and the actions taken to manage them;
- Directors give annual assurance to the Accounting Officer on the system of internal control within their operating areas;

- We maintain registers of corporate level risks, which are reviewed at least annually by the Board, and operational risks are reviewed by Areas;
- The head of Internal Audit gives an annual opinion on the adequacy and effectiveness of the OFT's system of internal control together with recommendations for improvement;
- A new suite of Delegated Authorities, from the Board through the hierarchy of committees and individuals, was devised in 2006/07 and was fully adopted during the 2007/08 year;
- Senior Management hold open forums on a fortnightly basis to enable staff across the OFT to raise issues with management which could impact on the achievement of our objectives.

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 the 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, the Executive Committee, and the Audit Committee which reviews, and where it considers necessary, advises on mechanisms for the assessment and management of internal control and risk.

Significant Internal Control Issues

The internal audit programmes undertaken in the years 2006 to 2008 highlighted a number of issues of concern. While organisational changes during those years contributed to those issues, a number of the weaknesses identified were of a longer standing nature. In response, I agreed with Chiene + Tait a detailed programme of remedial actions, which is being progressed and we also introduced a more formal process for monitoring the implementation of internal audit recommendations, reviewed by the Audit Committee. Some of the issues related to the availability and timeliness of information about OFT's spend on staff, goods and services. It became apparent after the end of 2007/08 that the data on spend in year understated the actual position. Work is in hand to ensure that the spend information is more accurate, produced more frequently and that financial forecasting is more robust.

Issues about liabilities for PAYE and VAT were investigated during the year by internal audit and the OFT finance team working in partnership. Settlement has been reached with HM Revenue and Customs in respect of PAYE. There are continuing discussions about the extent of VAT liabilities particularly in respect of VAT previously reclaimed on Consumer Direct expenditure, provision for likely repayment of which has resulted in an excess vote qualification to the accounts. Where the principles are clear however, work has been completed to ensure that the VAT returns are accurate. In both cases, effective procedures have been instituted to prevent any future recurrence of the problems.

I refer you to the report of personal data related incidents, which reports that the OFT had no protected personal data related incidents during the 2007/08 year or in any previous reporting period since 2004.

I believe that the OFT's implementation of internal audit recommendations and other changes have strengthened internal control. There are still areas for improvement but I believe that our engaged and positive response, together with my assessment of the other areas of assurance supporting this statement, leads me to conclude that the OFT has a developing framework of risk management, governance and control to provide reasonable assurance regarding the effective achievement of the OFT's objectives.



John Fingleton

Chief Executive Officer and Accounting Officer of the Office of Fair Trading
14 July 2008

Report of Personal Data Related Incidents

With effect from this year we, along with other government departments, are required by Cabinet Office to report on personal data related incidents during 2007-08, as follows:

- Protected personal data related incidents formally reported to the Information Commissioner's Office in 2007-08;
- Centrally recorded protected personal data recorded incidents not formally reported to the Information Commissioner's Office in 2007-08;

In addition this year we are also required to report on protected personal data related incidents in previous financial years.

No protected personal data related incidents occurred or were reported to the Information Commissioner's Office by the OFT in 2007-08 or in any previous reporting period since 2004.

Our information security risks emanate mainly from the commercially sensitive data we handle and process in carrying out much of our investigatory and enforcement work. The level of protected personal data (as defined by Cabinet Office) held and processed by the OFT is limited.

We will develop our plans to meet Cabinet Office mandatory information security requirements and we will continue to monitor and assess our information risks. Through this process we will identify and address any weaknesses in our control systems and ensure continuous improvement in the way that we manage our information security risks.



John Fingleton

Chief Executive Officer and Accounting Officer of the Office of Fair Trading
14 July 2008

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

I certify that I have audited the financial statements of the Office of Fair Trading for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and 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

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the board, our senior staff, operating and financial review, and the management commentary, included in the Annual Report, is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the remaining sections of the Annual Report and the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury, of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the board, our senior staff, operating and financial review, and the management commentary included within the Annual Report, is consistent with the financial statements.

Qualified Audit Opinion on Regularity arising from expenditure in excess of amounts authorised and from a breach of administration budget

As explained more fully in the attached report, Parliament authorised a Request for Resources for the Department of £75,994,000 relating to the Request for Resources, Advancing and safeguarding the economic interests of UK consumers. Against this authorised limit, the Department incurred net resource expenditure of £77,879,000 as shown in the Summary of Resource Outturn in the Resource Accounts for 2007-08 and has thus exceeded the authorised limit.

In addition, the Treasury set an Administration Budget of £73,944,000 for the Department. Against this limit, the department incurred resource expenditure of £75,829,000 as shown in Note 3 to the Resource Accounts for 2007-08 and have thus exceeded the limit.

In my opinion, except for net resource expenditure of £1,885,000 in excess of the amount authorised for the Request for Resources, Advancing and safeguarding the economic interests of UK consumers referred to in my Report, and except for resource expenditure on Administration of £1,885,000 in excess of the Administration Budget also referred to in my report, 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.

Details of this matter are explained more fully in my Report below.

T J Burr

Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

16 July 2008

Report by the Comptroller and Auditor General to the House of Commons

Excess Vote

Introduction

In 2007-08 the Office of Fair Trading expended more resources than Parliament had authorised on its one Request for Resource: Advancing and safeguarding the economic interests of UK consumers. I have qualified my opinion on the Department's 2007-08 Resource Accounts in this regard.

In 2007-08 the Department also expended more resources than the Treasury had set in the Department's Administration Budget. I have also qualified my opinion on the Department's 2007-08 Resource Accounts in this regard.

The purpose of this Report is to explain the reason for these qualifications and to provide information on the cause, extent and nature of the breach.

My responsibilities with regard to the breach of regularity

As part of my audit of the Resource Accounts for the Department, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so, I have had regard, in particular, to Parliamentary authority and the Supply limits Parliament has set on expenditure, and also to the Administration Budget set by the Treasury.

Expenditure limits

There is a single Request for Resources for the Department: Advancing and safeguarding the economic interests of UK consumers. For this Request for Resources, Parliament thereby authorises the net current expenditure that may be incurred.

Expenditure disclosed in the Department's Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the cost of running the Department, while programme costs relate to non-recurrent legal fees. Administration costs are controlled through an Administration Budget set by the Treasury.

The resource limit for the Department was set out in the Main Supply Estimate for 2007-08 (HC 836, 2007-08). The net resource outturn limit for Request for Resource: Advancing and safeguarding the economic interests of UK consumers was set at £75,994,000.

The Statement of Parliamentary Supply for the accounts shows expenditure on Request for Resource: Advancing and safeguarding the economic interests of UK consumers of £77,879,000 which is £1,885,000 (2.5%) in excess of the amount authorised. The Department propose to ask Parliament to authorise £1,885,000 as additional use of resources by way of an Excess Vote.

The Administration Budget set out in the Main Supply Estimate for 2007-08 (HC 836, 2007-08), and as disclosed in Note 3 to the Resource Accounts, was set at £73,944,000.

Note 3 to the accounts, Reconciliation of outturn to net operating cost and against Administration Budget shows outturn against the individual administration budget of £75,829,000 which is £1,885,000 (2.5%) in excess of the limit set by the Treasury.

If a Department breaches their Administration Budget, the Treasury will not usually approve the application of savings generated from other activities. Where approval is refused, Parliamentary authority under the Excess Votes procedure is required. However, as the amount of the excess will be required to meet the Department's excess Resource consumption, no additional Parliamentary authority is required.

Reasons for the excess expenditure

The Department assumed responsibility for administering Consumer Direct from the Department of Trade and Industry (now the Department for Business Enterprise and Regulatory Reform) in April 2006. Consumer Direct is the national telephone and online consumer advice service, which aims to give customers practical advice to help them resolve problems or disagreements with suppliers.

The service is provided by a number of external contact centres which invoice the Department for the costs incurred. The Department has previously reclaimed the VAT on these invoices.

As a result of a voluntary Departmental review of its tax affairs undertaken during 2007-08, in February 2008 the Department asked HMRC for advice on the eligibility of Consumer Direct expenditure for VAT recovery purposes. In March 2008 HMRC ruled that the Department was not eligible to reclaim VAT on Consumer Direct expenditure.

Following discussion with HMRC, the Department requested that HMRC review its decision. In May 2008 HMRC confirmed that after further review its original decision still stood. Although the Department is currently seeking professional advice as to whether to challenge the HMRC decision, it has provided a total of £1,938,000 in its Resource Accounts to account for the likelihood of having to repay the previously reclaimed VAT. This amount, which represents the maximum amount of the liability the Department faces in this matter, has been treated as expenditure in the Resource Accounts and has resulted in both the breach of the limit on the Request for Resources and the breach of the Administration Budget.

Action taken by the Department

The Department is in dialogue with HMRC, and will repay the previously recovered VAT if it decides not to formally challenge the HMRC ruling. It considers the decision to recognise the liability in its Resource Accounts to be consistent with the requirements of accounting standards. The identification of the liability came too late for the Department to request additional resource from Parliament through the Spring Supplementary Estimate. The Department is confident that the review it undertook of its tax affairs has identified all material potential liabilities.

Summary and Conclusions

The Department has incurred an excess vote on Request for Resource: Advancing and safeguarding the economic interests of UK consumers, and an excess vote on the Administration Budget set by the Treasury, of £1,885,000. The excess vote on Request for Resource, Advancing and safeguarding the economic interests of UK consumers requires retrospective approval. Approval will be sought from Parliament to increase Resources through an excess vote later in the year.

I am satisfied that the Department has adopted the appropriate accounting treatment in recognising the liability in the Resource Accounts and is taking appropriate steps to prevent a recurrence of the circumstances that led to the excesses occurring in the future.

TJ Burr

Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

16 July 2008

Statement of Parliamentary Supply

Summary of Resource Outturn for the year ended 31 March 2008

	2007–2008						2006–2007	
	Estimate			Outturn			Net total Outturn compared with estimate saving/ (excess)	Prior-year Outturn
	Gross expenditure	A-in-A	Net Total	Gross expenditure	A-in-A	Net Total		
£000	£000	£000	£000	£000	£000	£000	£000	
RfR : Advancing and safeguarding the economic interests of UK consumers								
Total Resources (note 2)	75,994	–	75,994	77,879	–	77,879	(1,885)	74,526
Net cash requirement for the year ended 31 March 2008								
Net Cash Requirement (note 4)	–	–	74,496	–	–	72,251	2,245	73,706

Summary of income payable to the Consolidated Fund

The following income relates to the OFT and is payable to the Consolidated Fund (cash receipts being shown in italics):

		2007–2008 Income	Forecast Receipts	2007–2008 Income	Outturn Receipts
	Note	£000	£000	£000	£000
Total	5	7,000	7,000	9,033	10,456

The OFT has an excess vote on request for Resource, Advancing and Safeguarding the economic interests of UK consumers, of £1.885m. This position has arisen due to a £1.938m provision for VAT incurred on Consumer Direct activities, which may have been incorrectly recovered by the OFT during the 2007–08 year, being raised in the Resource Accounts.

Further explanation between estimate and outturn are given in the Management Commentary.

The notes on pages 89 to 100 form part of these accounts.

Operating Cost Statement for the year ended 31 March 2008

		2007-2008	2006-2007
	Note	£000	£000
Administration Costs:			
<i>Request for Resources 1</i>			
Staff Costs	7	36,061	34,302
Other Administration Costs	8	39,768	38,206
Operating Income	10	(9,033)	(42,217)
Programme Costs			
<i>Request for Resources 1</i>			
Expenditure	9	2,050	2,018
Net Operating Cost	3	68,846	32,309

Statement of Recognised Gains and Losses for the year ended 31 March 2008

		2007-2008	2006-2007
	Note	£000	£000
Net loss on revaluation of tangible fixed assets	11	-	(146)
Net loss on revaluation of intangible fixed assets	12	-	(26)
Actuarial loss	16	(6)	(229)
Receipt of donated assets	18(b)	-	2
Total loss since last financial statements		(6)	(399)

All income and expenditure are derived from continuing operations.

The notes on pages 89 to 100 form part of these accounts.

Balance Sheet as at 31 March 2008

		as at 31 March 2008		as at 31 March 2007	
	Note	£000	£000	£000	£000
Fixed assets:					
Tangible assets	11		7,137		7,792
Intangible assets	12		235		256
Current assets:					
Debtors	13	3,833		5,288	
Cash at bank and in hand	14	384		1,629	
		4,217		6,917	
Creditors (due within one year)					
	15	(9,804)		(9,541)	
Net current liabilities					
			(5,587)		(2,624)
Total assets less current liabilities					
			1,785		5,424
Provisions for Liabilities and Charges	16	(5,778)		(3,710)	
			(5,778)		(3,710)
Total Assets less Total Liabilities before Pension Liabilities					
			(3,993)		1,714
Pension Liabilities	16	(1,498)		(1,510)	
			(1,498)		(1,510)
Total Assets less Total Liabilities after Pension Liabilities					
			(5,491)		204
Taxpayers' Equity					
General Fund	17		(6,477)		(790)
Revaluation reserve	18(a)		975		975
Donated asset reserve	18(b)		11		19
			(5,491)		204

The notes on pages 89 to 100 form part of these accounts.



John Fingleton

Chief Executive Officer and Accounting Officer

14 July 2008

Cash Flow Statement for the year ended 31 March 2008

		2007-2008	2006-2007
	Note	£000	£000
Net cash outflow from operating activities	19(a)	(60,305)	(30,318)
Capital expenditure and financial investment	19(b)	(1,488)	(2,443)
Receipts due to the Consolidated Fund which are outside the scope of OFT's activities		-	(1)
Payments of amounts due to the Consolidated Fund		(10,060)	(41,082)
Financing	19(c)	70,608	73,865
(Decrease)/Increase in cash in the year	19(d)	(1,245)	21

The notes on pages 89 to 100 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives for the year ended 31 March 2008

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

Objective	2007–2008		
	Gross	Income	Net
	£000	£000	£000
Deliver High Impact Outcomes	25,858	(218)	25,640
Centre of Intelligence and Excellence	8,441	(5,572)	2,869
Work in Partnership	21,330	(2,925)	18,405
Develop OFT as an organisation	22,250	(318)	21,932
RfR Total	77,879	(9,033)	68,846

Objective	2006–2007		
	Gross	Income	Net
	£000	£000	£000
Self Regulation	1,366	–	1,366
Consumer protection and enforcement and Consumer Direct	28,283	(5,795)	22,488
Competition enforcement	12,328	(33,632)	(21,304)
Merger control	2,341	(2,790)	(449)
Market studies	4,538	–	4,538
Communications	3,459	–	3,459
Shaping policy and working with OGD's	1,426	–	1,426
Operations	20,785	–	20,785
RfR Total	74,526	(42,217)	32,309

Our methodology for preparing this Statement is set out in accounting policy note 1.16.

The notes on pages 89 to 100 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 2007-08 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department 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 Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers. Where the FReM permits a choice of accounting policy, the accounting policy which has been 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 OFT's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Tangible fixed assets

As permitted by the 2007-08 FReM, fixed assets are no longer revalued on an annual basis using indices. Depreciated historical cost is now used as a proxy for current value as this realistically reflects the consumption of the asset. Annual revaluations would not cause a material difference to the carrying value of fixed assets.

The minimum level of capitalisation of a group of tangible fixed assets is £5,000. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into a working condition. All tangible fixed assets are re-analysed to current value every three years. Leasehold Improvements are re-analysed each year by the use of the appropriate published indices. Non-property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices appropriate to the category of asset are normally used to estimate value.

1.3 Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. Assets in the course of construction are not depreciated until the asset is brought into use.

Asset lives are normally in the following ranges:

- Fixtures and fittings 9 years;
- Furniture 7 to 10 years;
- IT Hardware 3 to 5 years;
- Software 5 years;
- Leasehold improvements – amortised over the term of the lease.

1.4 Donated assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve. Subsequent revaluations (completed every three years) are also taken to this 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.

1.5 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £5,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are re-analysed to current value every three years. Software licences are amortised over the shorter of the term of the licence and the useful economic life. The estimated useful life of third party developed software licences is five years.

1.6 Investments

The OFT has no investments.

1.7 Research and development

Expenditure on research is not capitalised. 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 SSAP 13. Other development expenditure is capitalised if it meets the criteria specified in the FReM which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

1.8 Operating income

Operating income is income which relates directly to the operating activities of the department. It principally comprises of Competition Act notification fees, Competition Act penalties imposed and charges to external customers under the Consumer Credit Act 1974, Fair Trading Act 1973 and the Enterprise Act 2002 which are set by the Department for Business, Enterprise and Regulatory Reform. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with FReM is treated as operating income. The department has three sources of income payable to the Consolidated Fund. These are fees for administration of the Consumer Credit Act 1974, fees charged for mergers under the Fair Trading Act 1973 and Enterprise Act 2002 and Competition Act penalties. Operating income is stated net of VAT.

Competition Act 1998 penalties

Income is recognised 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.

1.9 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administrative cost limit, and that operating income which is not. Programme costs relate to non-recurrent legal fees. 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 government's standard rate of 3.5 per cent in real terms on the average carrying amount of all assets less liabilities, except for donated assets, cash balances on non-interest bearing OPG accounts and on balances with the Consolidated Fund where the interest rate is nil.

1.11 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of the transaction.

1.12 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in the Remuneration Report. The defined benefit schemes are unfunded and are 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 Chairman and former Directors General of the OFT are not members of the PCSPS but are pensioned by analogy to that scheme thereby gaining benefits commensurate with their salary and service, see note 18.

These financial statements are fully compliant with FRS 17.

1.13 Early departure costs

The OFT is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The OFT provides in full for the costs when early retirement for an individual is agreed and takes effect. The department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount is shown net of any such payments.

1.14 Provisions and Contingencies

- a) 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 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 Treasury discounted rate of 2.2 per cent in real terms. 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. Related contingent liabilities and contingent assets are disclosed in accordance with FRS 12.
- b) In addition to contingent liabilities disclosed in accordance with FRS 12, the OFT discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. For the OFT, these comprise items over £100,000 (for which there is no specific statutory authority) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement.

1.15 Taxation

Value Added Tax (VAT) is accounted for in the accounts, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Operating Cost Statement and included under the heading relevant to the type of expenditure, and
- irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The amount due to, or from HM Revenue and Customs in respect of VAT is included within Debtors and Creditors within the Balance Sheet.

1.16 Statement of Parliamentary Supply and Statement of Operating Costs by Departmental Aim and 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 processes.

Administration costs, programme costs and related receipts were attributed by the annual plan objectives in 2007/08. These objectives changed from those in 2006/07 and therefore, there is no direct comparison available between the two years. The 2007/08 objectives will apply for the next three years as outlined in the OFT annual plan.

Capital is employed exclusively for administration purposes. Its distribution between objectives is therefore not markedly different from the proportion of the related gross administration cost.

1.17 Operating leases

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

1.18 Comparative amounts

Comparative amounts are re-analysed where necessary to conform to current presentation.

1.19 Derivatives and other financial instruments

The OFT has no borrowings and relies primarily on voted funds from Parliament for its cash requirements and is therefore not exposed to liquidity risk. It also has no material deposits and all material assets and liabilities are denominated in sterling so it is not exposed to interest rate or currency risk. See note 23.

2. Analysis of net resource outturn

	2007–2008			A-in-A	Net Total	Estimate	2006–2007	
	Admin	Other current	Gross resource expenditure				Net total Outturn compared to Estimate	Prior-year Outturn
	£000	£000	£000		£000	£000	£000	£000
Resource Outturn	75,829	2,050	77,879	–	77,879	75,994	1,885	74,526

The OFT has only one Request for Resources for control purposes and parliamentary approval. Consequently, it is the same as the resource outturn.

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

3(a) Reconciliation of net resource outturn to net operating cost

	Note	2007–2008 £000	2006–2007 £000
Net Resource Outturn	2	77,879	74,526
Non-supply income (CFER)	5	(9,033)	(42,217)
Net operating cost		<u>68,846</u>	<u>32,309</u>

3(b) Outturn against final Administration Budget

The outturn shown against individual administration cost limits is as follows:

	2007–2008		2006–2007	
	Outturn £000	Limits £000	Outturn £000	Limits £000
Total Resources	75,829	73,944	72,508	75,833

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Net Total Outturn £000	Net total Outturn compared with estimate saving/ (excess) £000
Resource Outturn	2	75,994	77,879	(1,885)
Capital:				
Acquisition of fixed assets	11,12	1,398	1,495	(97)
Investments	1.6	–	–	–
Non-operating A-in-A				
Proceeds of fixed asset disposals		–	–	–
Accruals adjustments:				
Non-cash items	8,9	(2,991)	(4,445)	1,454
Changes in working capital other than cash		–	(2,968)	2,968
Changes in creditors falling due after more than one year		–	–	–
Use of provision	16	95	290	(195)
Net Cash Requirement		74,496	72,251	2,245

5. 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 2007–2008		Outturn 2007–2008	
		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		–	–	9,033	<i>10,456</i>
	17	–	–	9,033	<i>10,456</i>
Non-operating income and receipts – excess A in A		–	–	–	–
Other non-operating income and receipts not classified as A-in-A		–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		7,000	<i>7,000</i>	–	–
Total income payable to the Consolidated Fund		7,000	7,000	9,033	10,456

6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2007–2008 £000	2006–2007 £000
Operating income	10	9,033	42,217
Adjustments for transactions between RfRs		–	–
Gross income		9,033	42,217
Income authorised to be appropriated-in-aid		–	–
Operating income payable to the Consolidated Fund	5	9,033	42,217

7. Staff related costs and staff numbers

	2007–2008			2006–2007
	Total £000	Permanently employed staff £000	Others £000	Total £000
Wages and Salaries	28,967	23,851	5,116	27,200
Social security costs	2,149	2,149	–	2,204
Pension costs	5,053	5,053	–	5,001
Pension of retired members (non-cash as per FRS 17)	–	–	–	–
Sub total	36,169	31,053	5,116	34,405
Less recoveries in respect of outward secondments	(108)	(108)	–	(103)
Total net costs*	36,061	30,945	5,116	34,302

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

The Principal Civil Service Pension Schemes (PCSPS), to which most of the department's employees are members, are unfunded multi-employer defined benefit schemes. The OFT's share of the underlying assets and liabilities cannot be separately identified. A full actuarial valuation was carried out at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007–2008, employer contributions of £4,749,933 were payable to the PCSPS (2006–07 £4,835,845) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands.

The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 March 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contribution of nil (2006–07 nil) were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2006–07 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 nil (2006–07 nil) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Included in pension costs is £303,214 in relation to lump sum payments on early retirement.

Contributions due to the partnership pension providers at the balance sheet date were nil. Employer contributions prepaid at that date were nil.

Number of persons employed

The total number of whole-time equivalent persons employed (including senior management) as at 31 March 2008 was as follows:

	at 31 March 2008			at 31 March 2007
	Total	Permanent staff	Others	2006-2007 Number
Markets & Projects	409	333	76	377
Communications	24	19	5	35
Policy & Strategy	135	120	15	122
Executive Office	31	27	4	21
Consumer Advice & Trading Standards	55	46	9	46
Corporate Services (formerly Operations)	93	67	26	82
Total	747	612	135	683

8. Other Administration Costs

	2007-2008		2006-2007	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machines	115		146	
Other operating leases	4,136		4,306	
Research expenditure		4,251		4,452
		799		671
Non-cash items:				
Depreciation of fixed assets				
Tangible fixed assets	2,037		1,709	
Intangible fixed assets	79		136	
Released from the donated asset reserve	(8)		(8)	
Loss on disposal of fixed assets	41		-	
Cost of capital (credit)/charge	(105)		16	
Auditor's remuneration and expenses	54		48	
Devaluation of Fixed Assets	-		34	
Provision: Amounts provided for in year	4,782		116	
Amounts not required written back	(3,037)		-	
Unwinding of discount on provisions	102		133	
Total Non-Cash Costs		3,945		2,184
Other expenditure:				
Consumer Direct Contact Centre	10,114		11,862	
Rates	1,203		1,008	
Consultancies	3,007		3,553	
Training	1,331		1,133	
Publicity and campaigns	5,602		3,072	
Maintenance	3,403		3,243	
Travel & subsistence	500		680	
Telecoms	804		685	
Events	204		304	
Publications	481		395	
Recruitment	2,120		2,130	
Other expenditure	2,004		2,834	
Total other expenditure		30,773		30,899
		39,768		38,206

The Auditor's remuneration reflects the notional fee for the NAO's statutory audit. The internal and external auditors provided no consultancy services.

9. Programme Costs

	2007–2008	2006–2007
	£000	£000
Non-cash items:		
Provision: Amounts provided for in year	500	–
Provision: Amounts not required written back	–	–
Other expenditure	1,550	2,018
Total programme expenditure	2,050	2,018

Total programme expenditure of £2,050k (2006–2007 £2,018k) comprises litigation costs of £1,437k and Save Christmas Campaign costs of £613k.

Reconciliation of non-cash costs

	Note		
Staff costs	7	–	–
Non-staff administration costs	8	3,945	2,184
Programme Costs	9	500	–
Total		4,445	2,184

10. Income

	2007–2008	2006–2007
	£000	£000
Fees for the administration of the Consumer Credit Act 1974	5,572	5,795
Fees charged for mergers under the Fair Trading Act 1973 and Enterprise Act 2002	2,925	2,790
Penalties imposed under the Competition Act 1998	37	33,478
Appeal costs reimbursed	181	154
Other Income	318	–
Total	9,033	42,217

11. Fixed Assets

	Information Technology	Building Improvements	Furniture and Fittings	Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2007	12,165	3,174	2,530	3,366	21,235
Additions	207	45	55	1,130	1,437
Disposals	(252)	–	(12)	–	(264)
Transfer to/(from) asset accounts	4,496	–	–	(4,496)	–
At 31 March 2008	16,616	3,219	2,573	–	22,408
Depreciation					
At 1 April 2007	9,614	2,470	1,373	–	13,457
Charged in year	1,420	363	254	–	2,037
Disposals	(212)	–	(11)	–	(223)
At 31 March 2008	10,822	2,833	1,616	–	15,271
Net book value at 31 March 2008	5,794	386	957	–	7,137
Net book value at 31 March 2007	2,565	704	1,157	3,366	7,792

12. Intangible Fixed Assets

	Software Licences	Total
	£000	£000
Cost or valuation		
At 1 April 2007	778	778
Additions	58	58
At 31 March 2008	836	836
Depreciation		
At 1 April 2007	522	522
Charged in year	79	79
At 31 March 2008	601	601
Net book value at 31 March 2008	235	235
Net book value at 31 March 2007	256	256

13. Debtors

13(a) Analysis by type

	2007–2008	2006–2007
	£000	£000
Amounts falling due within one year:		
Trade debtors	325	5
Deposits and advances	130	142
Other debtors	219	45
Value Added Tax	1,358	1,621
Prepayments and accrued income	1,801	3,475
Total debtors	3,833	5,288

Included within accrued income is £480,070 (2006–07: £1,140,000) that will be due to the Consolidated Fund once the debts are collected.

13(b) Intra-Government Balances

	Amounts falling due within one year	
	2007–2008	2006–2007
	£000	£000
Balances with other central government bodies	1,679	1,633
Balances with local authorities	–	1,285
Balances with NHS Trusts	–	–
Balances with public corporations and trading funds	–	–
Subtotal: intra-government balances	1,679	2,918
Balances with bodies external to government	2,154	2,370
Total debtors at 31 March 2008	3,833	5,288

14. Cash at bank and in hand

	2007–2008	2006–2007
	£000	£000
Balance at 1 April	1,629	1,608
Net change in cash balances	(1,245)	21
Balance at 31 March	384	1,629
The following balances at 31 March were held at:		
Office of HM Paymaster General	123	1,355
Commercial banks and cash in hand	261	274
Balance at 31 March	384	1,629

15. Creditors

15(a) Analysis by type

	2007–2008			2006–2007
	£000			£000
Amounts falling due within one year				
Trade creditors	4,711			795
Other creditors	1,135			1,229
Accruals and deferred income	4,157			5,048
Amounts issued from/(due to) the consolidated fund for supply but not spent at the year end	(1,147)			494
Consolidated Fund extra receipts due to be paid to the Consolidated Fund				
received	468	835		
receivable	480	948	1,140	1,975
Total	9,804			9,541

Included within accruals and deferred income is £1,063,273 of deferred income which relates to amounts received for surrender to the Consolidated Fund (2006–07 £300,374).

15(b) Intra-Government Balances

	Amounts falling due within one year	
	2007–2008	2006–2007
	£000	£000
Balances with other central government bodies	2,947	3,301
Balances with local authorities	1,384	1,723
Balances with NHS Trusts	–	–
Balances with public corporations and trading funds	795	296
Subtotal: intra-government balances	5,126	5,320
Balances with bodies external to government	4,678	4,221
Total creditors at 31 March 2008	9,804	9,541

16. Provisions for liabilities and charges (see also notes 1.12 – 1.14)

	Early Retirement Commitments	Building Refurbishment Provision	Other Provisions	Total
	£000	£000	£000	£000
Balance at 1 April 2007	421	2,935	354	3,710
Provided in year	136	2,600	2,470	5,206
Provisions not required written back	–	(3,037)	–	(3,037)
Provisions utilised in the year	(119)	–	(84)	(203)
Unwinding of discount	–	102	–	102
Balance at 31 March 2008	438	2,600	2,740	5,778
Expected timing of cash flows				
Less than one year	137	2,600	2,740	5,477
Between one and five years	228	–	–	228
After five years	73	–	–	73
	438	2,600	2,740	5,778

a) The early retirement provision relates to the costs of individuals who have retired early. The OFT meets these costs by paying the required amounts annually from its resources until the individual reaches normal retirement age. There was one new early retiree during the year (2006–07: Four).

b) The brought forward building refurbishment provision related to end of lease liabilities for Fleetbank House on the lease which expires in September 2009. This provision has been discounted at the Treasury rate of 2.2% (2006–07: 2.2%) up until the signing of a new lease agreement on 21 December 2007. Under the new lease agreement for Fleetbank House, the OFT does not need to refurbish the building at the end of the lease. The new lease agreement runs from September 2009 for 14 years.

However, as Fleetbank House is in need of refurbishment and rationalisation of use of space, re-ordering expenses will be incurred during the initial years of the lease. This reflects the need to comply with new lease agreement and Treasury requirements specified in negotiations relating to the signing of the new lease. In anticipation of these expenses, a new provision of £2,600,000 has been established.

c) Included within other provisions is £0k (2006–07: £450) relating to the best estimate we consider required in respect of outstanding claims relating to a complaint made to the Ombudsman's office which may result in payments to third parties. £302,000 (2006–07: £354,000) relates to a provision in respect of the closure of Craven House. £500,000 (2006–07: £0) relates to an agreed settlement in relation to Morrisons supermarkets. £1,938,000 relates to Value Added Tax reclaimed in the 2007–08 year relating to the Consumer Direct area expenditure, which may have been incorrectly recovered by the OFT. OFT staff are currently in consultation with HMRC and Treasury regarding this liability.

d) Pension provisions for the year ending 31 March 2008 are:

	Total
	£000
Balance at 1 April 2007	1,510
Provided in year	75
Provisions utilised in the year	(87)
Balance at 31 March 2008	1,498
Expected timing of cash flows	
Less than one year	90
Between one and five years	358
After five years	1,050
	1,498

The pensions provision is unfunded, with benefits being paid as they fall due and guaranteed by OFT for the previous Directors General and the current Chairman. There is no fund and therefore no surplus or deficit.

An actuarial valuation was carried by the Government Actuary's Department (GAD) at 31 March 2008.

The financial assumptions used in the calculation of the liability as at 31 March 2008 are as follows:

- The gross rate of increase in salaries of 4.30% p.a (2006-07: 4.3% p.a)
- The gross rate used to discount scheme liabilities is 5.30% p.a (2006-07: 4.60% p.a)
- The gross rate of increase for pensions in payment and deferred pensions is 2.75% p.a (2006-07: 2.75% p.a)
- In nominal terms, these assumptions imply price inflation of 2.75% p.a (2006-07: 2.75% p.a)

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

	£000
- Overnight Increase in liabilities (change in real return)	-
- Current service cost (net of Employee Contributions)	-
- Employee Contributions	-
- Interest Cost	68
- Actuarial Losses	6
	74
- Benefits Paid	(87)
Decrease in provision	(13)

17. General Fund

The General Fund represents the total assets less liabilities of the OFT to the extent that the total is not represented by other reserves and financing items.

	2007-2008	2006-2007
	£000	£000
Balance at 1 April	(790)	162
Net Parliamentary Funding		
Drawn Down	70,608	73,865
Deemed	494	335
	71,102	74,200
Year end adjustment		
Supply Debtor/(Creditor) - current year	1,147	(494)
Net Transfer from Operating Activities		
Net Operating Cost	(68,846)	(32,309)
CFER repayable to Consolidated Fund	(9,033)	(42,217)
	(77,879)	(74,526)
Non operating income surrenderable to the Consolidated Fund	-	(1)
Non-cash charges:		
Cost of capital	(105)	16
Auditors remuneration	54	48
	(51)	64
Transfer from revaluation reserve (note 18(a))	-	34
Actuarial Loss	(6)	(229)
Overnight increase in pension liabilities	-	-
General Fund at 31 March	(6,477)	(790)

18. Reserves

18(a) Revaluation Reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

	2007–2008	2006–2007
	£000	£000
Balance at 1 April	975	1,181
Arising on revaluation during the year (net)	–	(172)
Transferred to General Fund in respect of realised element of revaluation reserve	–	(34)
Balance at 31 March	975	975

18(b) Donated Asset Reserve

The donated asset reserve reflects the net book value of assets donated to the OFT.

	Donated Asset Reserve	
	2007–2008	2006–2007
	£000	£000
Balance at 1 April	19	25
Additions during the year	–	2
Release to the Operating Cost statement	(8)	(8)
Balance at 31 March	11	19

19. Notes to the Cash Flow Statement

19(a) Reconciliation of operating cost to operating cash flows

	Note	2007–2008	2006–2007
		£000	£000
Net operating cost	3	68,846	32,309
Adjust for non-cash transactions	9	(4,445)	(2,184)
Increase/(Decrease) in Debtors	13	(1,455)	2,166
(Increase)/Decrease in Creditors	15	(263)	(3,775)
less movement in creditors relating to items not passing through the OCS		(2,668)	1,294
Use of provisions	4	290	508
Net cash outflow from operating activities		60,305	30,318

19(b) Analysis of capital expenditure and financial investment

Tangible fixed assets additions	11	1,430	2,311
Intangible fixed assets additions	12	58	133
Proceeds of disposal of fixed assets		–	(1)
Net cash outflow from investing activities		1,488	2,443

19(c) Analysis of financing

From the Consolidated Fund (Supply) – current year		70,608	73,865
Net financing		70,608	73,865

19(d) Reconciliation of Net Cash Requirement to increase/(decrease) in cash

Net cash requirement	4	72,251	73,706
From the Consolidated Fund (Supply) – current year	17	(70,608)	(73,865)
Amounts due to the Consolidated Fund – received in a prior year and paid over		1,134	1,272
Amounts due to the Consolidated Fund received and not paid over		(1,532)	(1,134)
Decrease/(Increase) in cash in the period		1,245	(21)

20. Capital commitments

	2007–2008	2006–2007
	£000	£000
Contracted capital commitments at 31 March 2008 for which no provision has been made	–	–

21. Commitments under operating leases

	2007–2008		2006–2007	
	Land and Buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
At 31 March 2008 the department was committed to making the following payments during the next year in respect of operating leases expiring:				
Within one year	–	–	–	75
Between two and five years	4,136	–	4,136	9
After five years	–	–	–	–
Total	4,136	–	4,136	84

22. Other commitments

The department has no non-cancellable contracts (which are not operating leases) as at 31 March 2008 (2006–07 None).

23. Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the OFT is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The OFT has very limited powers to borrow or invest surplus funds: financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the OFT in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The OFT's net revenue resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure is. The OFT is not therefore exposed to significant liquidity risks.

Interest-rate risk

As at the 31 March 2008 the OFT's net financial assets, excluding OPG cash balances and Consolidated Fund balances, were subject to the Treasury's rate of 3.5%.

Foreign currency risk

The OFT has no foreign currency risk

Financial assets

The OFT has non-interest bearing financial assets at 31 March 2008 of £384,252. This is cash in hand and at bank reported in the balance sheet. All cash balances are held in Sterling.

The maturity profile of the OFT's financial liabilities at 31 March 2008 was as follows:

	£000
In one year or less or on demand	5,567
In more than one year but not more than two years	228
In more than two years but not more than five years	358
In more than five years	1,123
	<u>7,276</u>

24. Contingent assets and liabilities reported under FRS 12

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.

No decisions with penalties relating to infringements under the 1998 Competition Act are currently the subject of appeals to the Competition Appeal Tribunal or to the Court of Appeal.

Competition Act penalties imposed, once all routes of appeal have been exhausted, are collected by the OFT and passed to the Consolidated Fund as Consolidated Fund Extra Receipts. During 2007–08 a fine of £121.5m was agreed by British Airways. However OFT had not issued the decision in relation to this, and as such the fine will be included as income in the 2008–09 year and passed to the Consolidated Fund as Consolidated Fund Extra Receipts.

25. Contingent liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability

The OFT has entered into the following unquantifiable contingent liability by offering an indemnity. This is not a contingent liability within the meaning of FRS 12 since the possibility of a transfer of economic benefit in settlement is too remote.

Statutory Indemnity:

On 11 March 2002 the Department of Trade and Industry issued a personal liability indemnity to the OFT Chairman and Board Members. Parliament approved the Minute which gives the Chairman and all 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. Related-party transactions

The OFT has had a small number of transactions with other government departments and other central government bodies. None of the Board members, key managerial staff or other related parties has undertaken any material transactions with the OFT during the year.

27. Deferred Income

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

	2007–2008	2006–2007
	£000	£000
Fees for administration of the Consumer Credit Act 1974	1,003	225
Fees for mergers under Fair Trading Act 1973	60	75
Fees payable to the Consolidated Fund	1,063	300
Other Income received in advance	10	–
Total Deferred Income	1,073	300

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

28. Post Balance Sheet Events

There were no reportable post balance sheet events between the balance sheet date and the date when the Accounting Officer dispatched the accounts to HM Treasury. The financial accounts do not reflect events after this date.

If you would like to find out more

Office of Fair Trading
Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX

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