

The Office of Fair Trading is the UK's competition and consumer authority. Our mission is to make markets work well for consumers. We aim for competitive, efficient and innovative markets where standards of consumer care are high and where businesses comply with competition and consumer law but do not face excessive regulation. We took a number of important steps towards this goal in 2006–07, securing major gains for consumers, businesses and the economy. We also completed an internal change programme that has given us a more effective structure and a sharper focus

Annual Report and Resource Accounts 2006–07

This edition of the OFT's Annual Report and Resource Accounts covers a 12-month period from 1 April 2006 to 31 March 2007.

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Chairman's statement

The past year has been marked by a number of important achievements. By striving to make markets work well, we delivered significant benefits to consumers, businesses and the economy.



At the same time, we embarked on a programme of radical change inside our organisation that is designed to increase those benefits in the coming years. This is allowing us to understand and analyse markets better, and to address problems in the way markets work using the full range of tools and methods of resolution available to us.

The past year also brought welcome changes to the framework within which we operate. For example, the Consumer Credit Act 2006 modernises the regulatory regime governing the provision of consumer credit – a market in which there is significant scope for consumers to be harmed by unfair practices. Meanwhile, the EC Consumer Protection Cooperation Regulation gives the OFT and other European consumer protection bodies new powers to tackle cross-border breaches of consumer law. The European Competition Network Model Leniency Programme, with which we were closely involved, strengthens our hand in tackling hard-core cartels by promoting the adoption of uniform leniency principles.

As part of our change programme, we have improved the OFT's governance by clarifying and separating the roles of the OFT board and our executive management team. As a result, the board

can concentrate on setting our strategic direction and priorities, and monitoring our overall performance, while the executive team focuses on managing our activities.

In addition, we made two significant senior board-level appointments of executive directors Jonathan May and Sean Williams, and in April 2007 we welcomed three new non-executive directors – Bronwyn Curtis, Professor Frédéric Jenny and Alan Giles. They each bring valuable and distinctive perspectives to our discussions. Departing the board this year were Christine Farnish, who stepped down from her role as a non-executive director in July 2006, and Rosalind Wright, who completed her term of appointment in March 2007. I would like to thank them for their commitment and expertise.

During 2006–07, we developed the way we worked in partnership with others – Local Authority Trading Standards Services (TSS), sector regulators, the Government, the Competition Commission, the European Commission and the courts, as well as business and consumer groups.

As part of an expanded remit for the OFT, we began fulfilling our new role as champion and regulatory leader of TSS, and took management responsibility

for the Consumer Direct advice service. We also began realising the benefits of leading the Consumer Education Alliance. We are increasingly looking to develop innovative initiatives to empower consumers with the knowledge and skills they need to make buying decisions that reward competitive and efficient businesses. Of particular note was our cooperation with the Financial Services Authority on matters of common regulatory interest. One outcome was our joint work on payment protection insurance, which led to a reference to the Competition Commission.

Of course, there remains much to do. We need to continue to develop our levels of expertise, demonstrate our commitment to excellence and innovation, promote strong and effective engagement with stakeholders and broaden and deepen our work with our partners. These are just some of the challenges ahead as we continue our journey towards being regarded as a world-leading consumer and competition authority.



Philip Collins
Chairman

Chief Executive's statement



Our work in 2006–07 was extensive and varied. We continued to make targeted and proportionate interventions in markets to improve competition and protect consumers. We did this against the background of new legal powers and operational responsibilities and a major internal change programme.

As the UK's consumer and competition authority, our mission is to make markets work well for consumers. Empowered and well-informed consumers act as a positive stimulus to competition between businesses. Where consumers are able to make informed decisions, businesses are more likely to innovate, reduce inefficiencies in production and supply, and compete in a way that benefits consumers and the wider economy.

Government must also avoid disproportionate restrictions of competition, and intervene to protect consumers from unfair and exploitative conduct. We need to influence the behaviour of consumers, businesses and government – using every tool at our disposal – in order to drive productivity growth and consumer welfare.

The OFT is not for the most part a regulator: our direct regulatory powers primarily relate to consumer credit licensing. The bulk of our work consists of analysing and studying markets, enforcing competition and consumer protection law, undertaking advocacy, and working with partners to raise standards and to deliver relevant education programmes to businesses and consumers.

Our wide-ranging remit produced some notable results in 2006–07. Consumers benefited significantly when UK credit card issuers cut their default charges – the majority by almost half – as a result of pressure we put on them. We acted against price-fixing and bid-rigging in a number of markets, and put a stop to misleading promotions and other mass-marketed scams arising from the UK and overseas. Our flexible approach to enforcement paved the way for resolution of a competition case against 50 independent schools, and to the development of a fast-track procedure for companies implicated in our two-year construction cartel investigation.

We referred the markets for groceries, payment protection insurance, and the supply of airport services by BAA to the Competition Commission. We further identified potential benefits to the economy of around £500m a year from improved competition in the supply of public sector information, and the release of a similar amount for the NHS from improvements in the purchasing of pharmaceuticals. Our first-phase review of mergers delivered high-quality decisions within a tight timescale, and resolved a number of complex issues and cases without a Competition Commission reference.

As a result of our new strategic partnership with Local Authority Trading Standards Services (TSS), we now have a joint action plan for delivering better regulation for consumers and businesses at a local level. On top of this, Consumer Direct, which came under our operational control during the year, provided high-quality advice to almost 1 million consumers.

We also achieved efficiency savings within our own organisation of five per cent – or £2.5m – in line with our target for the year. We did this primarily by reducing staff posts and making savings on external contracts.

The OFT aspires to have a measurable positive impact on consumers, and overall we have a good record of success. But we believe we can aim even higher in terms of our economic impact.

A key feature of the reorganisation we underwent this year is that it created market-focused project and enforcement teams – a departure from our previous structure, under which work was organised around our legal instruments. Our new model enables us to assess evidence of market failure and illegal activity more holistically, looking at consumer and competition issues together, while improving our knowledge of specific markets and consumer and business behaviour.

We have also changed how we prioritise and allocate our resources, and established a new unit to deal with all enquiries and preliminary investigation. A new market monitoring function will analyse intelligence from enquiries, Consumer Direct and other sources to detect signs of market failure. Early identification of issues and comprehensive analysis of their causes and effects are vital if we are to select the right tools to address market problems.

In tandem with our internal changes, we have agreed new performance targets with the Treasury as part of our Comprehensive Spending Review settlement for 2008 to 2011. For 2007–08 we have set objectives which lay the foundation for meeting our future challenges. Our new targets differ from our previous goals in that they focus on actual market outcomes (for example changes in consumer, business and government behaviour) rather than outputs (for example the number of cases or studies we undertake). In addition they commit us to delivering measurable benefits to UK consumers of at least five times our annual budget.

Reports from the National Audit Office and the House of Commons Public Accounts Committee on our competition enforcement work stimulated much of this change. In line with the two bodies' recommendations, we have published criteria for deciding which cases we will take on, and adopted a range of measures to improve our operational effectiveness. The subsequent refocusing of resources on high-priority cases prevented us achieving some of the key performance indicators set out in our 2006–07 annual plan. For instance, on resource grounds we closed a number of investigations, as a result of which we made fewer Competition Act decisions than we had originally anticipated. Such case closure demanded considerable investment of time and effort, but we considered it a necessary step towards focusing our resources on high-priority investigations.

During 2006–07, we also undertook significant work to evaluate the impact of our actions, for example by calculating the savings to consumers resulting from our enforcement work and market studies, and the efficiency gains from our coordination of TSS regulatory activity.

The early results were encouraging. An independent review of our completed market study into new car warranties calculated that private consumers and fleet operators saved between £120m and £170m over a two-year period as a direct result of our inquiry. This compared with our expenditure of £300,000 on the study and follow-up activities. A separate assessment of the training we provided to our TSS partners in the use of the Enterprise Act found that it delivered efficiency savings for local government of £5m a year, at an annual cost to the taxpayer of just £150,000.

I'm confident that we have the organisation and people to fulfil our mission – the next year will be one of further significant achievement.

The policy and legislative environment in which we operate changed significantly during the year – and there is further change on the horizon. The Unfair Commercial Practices Directive, which harmonises unfair trading laws in all EU member states, is due to be implemented in UK law in April 2008. We are working closely with the Department of Trade and Industry, TSS and all our stakeholders to ensure that this important legislation is implemented effectively. We are also preparing for further progress on the Government's Better Regulation agenda arising from the Macrory review of administrative and criminal penalties, the Hampton implementation review, and the introduction of the Regulators' Compliance Code – all of which have implications for our enforcement strategy.

Private actions under competition law will be another pressing issue. The publication of a European Commission Green Paper has triggered considerable discussion on how damages actions for breaches of antitrust law can be facilitated within member states. We will continue to lead this debate in the UK and will make recommendations to the Government on possible next steps. In the meantime we will do what we can, within the limits of the existing legal framework, to make private actions an effective complement to our public enforcement work.

In responding to these various challenges, we will need to demonstrate a clear grasp of the issues facing markets and the UK economy, and a commitment to delivering quality outcomes in a timely manner. Most of all, we must ensure that our work makes a real difference. I'm confident that we have the organisation and people to fulfil our mission – and that the next year will be one of further significant achievement.



John Fingleton
Chief Executive

Highlights

High-impact work

Credit card default charges

UK credit card issuers announced that they would substantially reduce their default charges on credit cards in response to pressure we brought to bear on them. This is a tremendous achievement. We used our statement of principles to spur a change in market practice, providing practical guidance to card issuers while protecting consumers from being charged unfair amounts.

BAA airports

Our market studies work has considered important and complex issues. We referred the following markets to the Competition Commission (CC) for further investigation:

Groceries

- supply of airport services by BAA, after our market study found evidence of high charges and poor customer satisfaction

Payment protection insurance

- supply of groceries, a sector with annual sales of around £120bn
- payment protection insurance, after our study concluded consumers are getting a poor deal and less protection than they think.

Pharmaceutical Price Regulation Scheme

Following our market study into the Pharmaceutical Price Regulation Scheme, we recommended that the scheme be reformed to deliver better value for money for the NHS and focus business investment on drugs that have the greatest benefits for patients.

Savings to consumers

We estimate that each year OFT merger control saves consumers around £52m, based on undertakings in lieu of reference and published CC decisions for 2006–07. In addition, we estimate that each year enforcement action leading to infringement decisions under the Competition Act saves consumers £64m.

Cartels

As a result of our investigation into collusive tendering by construction companies in England, we have uncovered evidence of bid-rigging in thousands of tenders with a combined estimated value approaching £3bn. At the end of March, we announced our intention to fast track the investigation by making an offer of reduced financial penalties.

Mergers

In mergers, we delivered a strategic win for the UK regime in *Celesio v OFT*, an appeal of our *Boots/Unichem* remedies decision, which the Global Competition Review described as “an exceptional example of a robust stance on a controversial merger”. This challenge aside, we ensured timely, litigation-free outcomes in complex cases such as *NASDAQ/ London Stock Exchange*.

Leadership and innovation

Consumer Direct

In our first year of managing Consumer Direct (the government-funded telephone and online service offering information and advice on consumer issues), it received over 1.7 million contacts from consumers. The service has begun to influence consumer behaviour, making consumers more confident in dealing with consumer issues. Consumer Direct is also an enormous asset to the OFT as it offers us new intelligence and insight into the nature and source of consumer detriment.

Local Authority Trading Standards Services (TSS)

In addition, it provides useful information to Local Authority Trading Standards Services (TSS). Our partnership with TSS has been key to delivering a good service to consumers and businesses through a risk-based, proportionate and coordinated approach to enforcement. In parallel with this, we have developed a programme of joint action that is beginning to give effect to our new enhanced role as a national voice and advocate for TSS.

Schools settlement

We resolved a competition case against 50 independent schools as a result of which a charitable trust was set up by the schools concerned to distribute settlement funds, which will total £3m, to the pupils affected. This settlement is a good example of the OFT being innovative and pragmatic. We have improved compliance, given consumers the ability to obtain redress and used enforcement resources efficiently.

Individual Voluntary Arrangements

We took a market-wide approach to the advertising of Individual Voluntary Arrangements. We were also proactive in taking steps to warn companies who were not complying with misleading advertising regulations and our debt management guidance. The work was carried out over three months, resulting in the majority of businesses agreeing to change their advertising.

Fast-track settlement procedure

As described under 'High-impact work', we continued our ground-breaking approach to seeking speedier resolution of large-scale cartel cases by offering a fast-track settlement procedure to companies involved in our construction cartel investigation.

Intervention in House of Lords case

For the first time, we were granted leave to intervene in the House of Lords (in connection with a private action involving public house leases). We made submissions on points of EC competition law.

Scams

In our work to combat mass-marketed scams, we continued to use a combination of targeted enforcement, consumer education and partnerships to promote consumer confidence in markets and ensure wider compliance.

Consumer education

We held a second meeting of the Consumer Education Alliance. The event brought together over 100 Alliance members from the public, private and voluntary sectors, together with a strong representation from TSS.

Building for the future

Legislative and policy changes

We have been closely involved in a number of legislative and policy changes, ensuring consistency and best practice, such as:

- the Consumer Credit Act 2006, which modernises the regulatory framework for consumer credit
- the Consumer Protection Cooperation Regulation, which gives new powers to consumer protection bodies to tackle cross-border breaches of consumer law
- the Unfair Commercial Practices Directive, which introduces a general duty not to trade unfairly
- the European Competition Network Model Leniency Programme, which seeks to harmonise leniency programmes across the European Union and facilitate the reporting of cross-border cartels.

Private actions

We hosted a workshop on private actions under competition law, bringing together around 60 leading figures in the competition field. We subsequently published a discussion paper, in April 2007, to inform the ongoing debate and provide the basis for further significant contributions to making private actions more effective.

Healthcare

We hosted a conference on healthcare to engage stakeholders and identify more clearly the issues that affect competition in healthcare provision and cause consumer detriment.

Economic research papers

We published four economic research reports on important and topical issues, each of which has made a key contribution to increased economic understanding and stimulated substantial debate. These covered the link between competition and productivity, the competitive implications of buyer groups, competition in markets with commission rates, and the error costs associated with Article 82 intervention/non-intervention.

Better regulation

Working towards better regulation, we took up the challenge of the Hampton report to provide leadership to TSS, agreeing and taking forward a joint programme of action with them. We also contributed substantially to the Macrory review of regulatory sanctions, the Rogers review, the proposed creation of a Local Better Regulation Office, and the development of the Regulators' Compliance Code.

Evaluating our performance

Car warranties

The evaluation of the OFT market study into new car warranties estimated that private consumers had saved £30m over a two-year period as a direct result of our inquiry, while fleet operators had benefited to the tune of between £90m and £140m. This compared favourably with the £300,000 we spent on the market study itself and on follow-up activities, such as a consumer information campaign.

TSS training

An independent evaluation of the OFT training provided to TSS in the use of the Enterprise Act 2002 found that the training provided efficiencies for local government of £5m per year even though the total cost of the support is £150,000 per year.

Consumer Codes Approval Scheme

A recent evaluation of the OFT Consumer Codes Approval Scheme suggests that the scheme delivers consumer benefits with minimal extra burdens for businesses that are signed up to OFT-approved codes of practice.

Clarifying the law

Limits to power of Competition Appeal Tribunal

We continued to be involved in high-level litigation, including 12 cases before the Competition Appeal Tribunal (CAT) and High Court. We have had a number of successful appeals. We intervened successfully in the Court of Appeal to establish limits to the powers of the CAT to give direction to regulators (Floe Telecom case).

Toys and games

We also had successful appeals in three linked cases relating to price-fixing in the toys and games market and in the supply of replica football kit. Of course, we hope to be successful in all our appeal cases, but it is also important that we bring cases in the higher courts where the clarification of the law for business and/or consumers is necessary or desirable.

Football kit

Section 75 Consumer Credit Act

A Court of Appeal ruling in March 2006 confirmed that section 75 of the Consumer Credit Act applies to overseas purchases, thus overturning a previous decision by the High Court. However, in January 2007, the House of Lords granted permission for the Court of Appeal's ruling to be appealed, and we await the hearing in autumn 2007.

About the OFT

The OFT is a non-ministerial government department. We have a broad remit and a diverse set of tools available to us. We are not a regulator; indeed our direct regulatory powers are limited to the operation of the consumer credit and merger control regimes, which are statutory functions. The majority of our work consists of analysing and studying markets, enforcing competition and consumer law, undertaking advocacy and working with partners to deliver relevant education programmes to businesses and consumers.

The OFT's mission

Our mission is to make markets work well for consumers. Our goal is for competitive, efficient, innovative markets where standards of consumer care are high, consumers have choice and are empowered and confident about making choices, and where businesses comply with consumer and competition laws but are not disproportionately burdened by Government regulations, or restricted and harmed by market abuse.

The tools to achieve this goal are found within the consumer and competition law regimes which lie at the heart of UK economic policy. These tools enable us to look at all aspects of markets to ensure that they are working well for consumers. We use the competition regime to ensure that consumers benefit from competitive and innovative markets which are not constrained by price fixing, by market sharing and other anti-competitive behaviour, by unnecessary or inappropriate regulations or by anti-competitive mergers. We use 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 unimpeded by artificial constraints such as deceptive practices, misleading advertising, unfair contract terms or the withholding of material information.

Our view is that it is more effective to look at the demand and supply sides of markets together. The competition and consumer regimes are complementary to each other.

Empowered and well-informed consumers act as a positive stimulus to competition between businesses. Where consumers are able to make informed decisions, businesses are more likely to innovate, reduce inefficiencies in production and supply, and compete in ways which make markets work well for consumers and the wider economy.

The OFT's approach

Our approach is founded on the principle that consumer welfare is optimised through vibrant competition in open and well-functioning markets. In pursuing this approach, we strive, through directed and effective enforcement when necessary and focused advocacy and education, to promote open competition and to encourage the unfettered availability of products and services and the provision of accurate, non-deceptive information between businesses and consumers. When stopping illegal conduct, we focus on the behaviour which poses the greatest threat to consumer welfare, such as fraudulent behaviour by individual 'rogue' traders and cartel activity. Such behaviour includes price fixing, market sharing, bid-rigging, the use of unfair contract terms and deceptive or misleading advertising.

We employ a systematic and rigorous approach to identify and address serious misconduct and pay special attention to harmful behaviour in key industries and to the needs of vulnerable consumers.

Enforcement in context

Enforcement is an important tool in supporting our goals. Enforcement action can be one of the key ways to achieve behavioural change in businesses. Where we believe that the law is being broken and consumers and other businesses are suffering as a consequence, we will not hesitate to take swift and robust competition and consumer protection enforcement action when we consider it necessary.

However, our enforcement action and its legal framework only sets the minimum standards in markets, and we believe that we should aim for higher standards. Therefore enforcement action is just one part of the toolkit which we use to address those problems where minimum standards are not being reached. We also aim to raise standards in lots of other ways including guidance, training and the Consumer Codes Approval Scheme.

We aim to take a market-informed approach, focusing on outcomes which support productivity growth and business vibrancy and improve consumer welfare. We believe that this approach is in the best interests of businesses, consumers, the UK economy and society. We have a wide range of tools at our disposal, from self-regulation in the form of the Consumer Codes Approval Scheme and business education to merger control, and the direct enforcement of consumer and competition legislation, including the criminal cartel offence.

Our methods include prosecution, market studies, consultation and workshops, advocacy to help to formulate Government policy and to address new or developing competition and consumer issues, and educating businesses and consumers. Beyond the immediate goal of stopping a particular bad practice or promoting a beneficial one, our activities improve the institutions and processes through which competition and consumer policies are formulated and applied.

Acting to prevent harm in the first place is better for consumers than taking enforcement action afterwards.

One of the ways to achieve this is to equip parties with the necessary knowledge and ability to protect themselves against unlawful practice. We undertake powerful awareness and education programmes and coordinate an alliance of

consumer education partners. Our aim is to increase consumer and business knowledge and to deal rapidly with complaints from all parties who are affected by illegal activity and market failure. Prevention is not solely up to individuals or the Government, however, and business representatives and industry organisations can and do play an important role. Government intervention should be the last, not the first, resort, and we ask industry to 'do the right thing' and police itself by helping to raise compliance levels and by helping to stop unlawful, unfair and deceptive practices.

The OFT – supporting business

By monitoring, addressing and remedying all aspects of market failure we protect the fundamental framework in which business can operate in a climate of fairness with the freedom to innovate. We protect business when it acts as a buyer and a seller by taking action against cartels, abusive monopolies, and Government restrictions, which distort markets and harm competition. We also seek to protect the reputation of legitimate business and the UK market as a whole by dealing with scams, rogue traders, cartels and other negative influences on consumer confidence across all markets.

We are committed to acting in a manner which is proportionate to the matter in hand. This will involve the use of particular tools to enable the most appropriate and proportionate outcome. We will also consider carefully, and at an early stage, what remedies (including settlement) might be most appropriate. Both the choice of the intervention tool and the most appropriate remedy will be kept under review during our investigations to ensure that we remain focused on obtaining proportionate and effective outcomes.

In our work we aim to ensure that we conduct ourselves in a transparent manner and that parties are regularly informed of the status and anticipated timeframe of the inquiries in which they are involved.

Better regulation

The OFT is not a regulator in the traditional sense, and our direct regulatory powers are restricted to the Consumer Credit Licensing regime. We aim in all of our action to take a risk-based approach to intervention in markets, using robust enforcement where necessary and for deterrence purposes, but also looking to work closely with business and consumers to raise compliance and awareness levels.

Regulatory Impact Assessments

The OFT does not sponsor legislation and has not been responsible for any regulatory proposals which required a Regulatory Impact Assessment (RIA) during 2006–07. However, we assist regulatory departments in central and devolved government by providing advice on the competition assessment part of their RIAs. For more information, see advice and guidance on page 63.

Alternatives to classic enforcement

The OFT has powers and duties under various statutes, which are administered in accordance with the statutory requirements. Where the law provides flexibility, we adopt a proportionate approach to enforcement. Examples include:

- acceptance of undertakings in lieu of merger and market investigation references where we can identify a comprehensive solution to perceived competition problems
- acceptance of undertakings from traders believed to have infringed consumer protection legislation where we believe this would secure compliance with the law in future without the need for court action
- acceptance of commitments in certain circumstances involving possible breaches of the Competition Act instead of proceeding with a view to adopting a formal infringement decision

- agreed outcomes in infringement cases where appropriate. Our settlement of the independent schools case (see page 43) is an example.

We support self-regulation by business. Codes approved under the Consumer Codes Approval Scheme are operated by sponsoring bodies, such as trade associations, and deliver benefits to consumers above those required by law. Approved consumer codes represent a model of self-regulation that is attracting a great deal of interest both within the UK and abroad.

Consumer Codes Approval Scheme: page 26.

Consultation

Although we do not make new regulations, we aim to follow the principles of the Cabinet Office's code of practice on consultations.

During the financial year, we concluded a number of relevant consultations. These were primarily on draft guidance documents, on which detailed comments were sought from knowledgeable stakeholders.

We were also active in responding to consultations by other government departments. This is an effective way of ensuring that competition and consumer protection issues are properly considered in government policy-making. Notable examples were our response to the European Commission's Green Paper on damages actions for breach of EC

antitrust rules (May 2006), and DTI consultations on strengthening and streamlining consumer advocacy (April 2006), representative actions in consumer protection legislation (October 2006), and framing and enforcing criminal sanctions in the regulations implementing the Unfair Commercial Practices Directive (February 2007).

OFT consultations and our responses to consultations:
www.oft.gov.uk

Macrory penalties review

The Better Regulation Executive (BRE)-commissioned report, *Justice: Making Sanctions Effective*, published in November 2006, proposed a broad toolkit of flexible administrative and criminal penalties. This would enable regulators and enforcers to promote and enforce regulatory compliance within a robust and transparent framework.

We strongly support these proposals, particularly those relating to flexible criminal sanctions, enforceable undertakings and programmes of restorative justice. We will be working closely with the BRE and other government departments to ensure the successful implementation of legislative changes arising from the report.

Regulators' Compliance Code

The Legislative and Regulatory Reform Act 2006 contains a power to issue a code of practice for regulators. The Government has announced that it will use this power to issue a statutory code of practice – the Regulators' Compliance Code. The code will enable the Hampton enforcement principles that address regulatory inspection and enforcement to be established in UK law.

The Regulators' Compliance Code will apply to regulators' policies, rules, codes and guidance. It will also ensure that regulators give businesses easy access to complaints procedures. We will take all of these issues into account when devising our enforcement policy for the future.

Hampton implementation review

As the Chancellor announced in the Pre-Budget Report, the BRE and the National Audit Office (NAO) are developing an external performance review framework with the help and expertise of regulators. The NAO will publish the framework toolkit in summer 2007.

The review process will provide regulators with structured checks on their performance against Hampton principles and Macrory characteristics. Reviews will be conducted by teams comprising staff from other regulators (peer-review), the NAO and, occasionally, the BRE. Business representatives may also have a role (for example in review teams or focus groups). The output of each review will be a report that highlights good practice and areas for improvement. The Financial Services Authority, Food Standards Agency, Health and Safety Executive, Environment Agency, and the OFT will be reviewed using the toolkit by the end of 2007. Other regulators will be reviewed thereafter.

OFT vision

Our vision is to:

1

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 policy instruments.

2

Be a centre of excellence

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

3

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.

4

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 and consumers and their representatives.

5

Develop, promote and attract the best talent

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

OFT structure

This year we have made radical changes to our internal structure in order to be better able to meet the challenges of this new vision and ensure that we are more strategic, focused and coherent as an organisation. See below for a chart of the new OFT structure.

We will concentrate on markets as a whole and use the broad range of tools available to us in order to influence and affect market processes where they are not working to the benefit of consumers. This will be done by:

- grouping together project and enforcement work in three market groupings, covering goods, services and infrastructure, and supported by dedicated merger, cartel and scambuster teams
- a new central policy and strategy function – bringing a consistent and clear view on all major issues
- a new area of our structure which will focus on our role to coordinate and champion the work of Local Authority Trading Standards Services (TSS)
- better and earlier prioritisation of our work through a dedicated preliminary investigation unit and a prioritisation committee
- a new senior management team with a broad span of expertise and experience.

We believe that this new vision coupled with our new structure and new ways of working will optimise our impact and help us to achieve maximum success.

The three outward-facing areas of the OFT will provide more flexibility for future challenges that we will face. The new structure is more strongly focused around markets rather than tools, although we will continue to ensure excellence in the use of our competition and consumer law toolkit.

Policy and Strategy will lead our strategy and policy across its consumer and competition functions. The Policy and Strategy groups are responsible for developing long-term strategy, ensuring greater focus and impact of the OFT’s work, and national and international leadership in both competition and consumer policy.

Markets and Projects will focus on outcomes which add value to both

markets and consumers through effective prioritisation, investigation and improved legal certainty. The groups will use the entire range of policy and enforcement instruments available to us in tackling problems within markets.

Consumer Advice and Trading Standards (CATS) has been formed in recognition of the important role we play in being the champion for TSS. The focusing of our priorities and allocation of our resources to high-impact work will continue, and the intelligence that we have access to via Consumer Direct, the Regional Intelligence programme, and Scambusters will help us and TSS understand and home in on the areas where we can make the biggest difference in alleviating consumer detriment.

Board				Chairman Philip Collins	Chief Executive John Fingleton	Executive Committee						
Policy and Strategy Jonathan May				Markets and Projects Sean Williams			Consumer Advice and Trading Standards (CATS) Christine Wade					
Strategy and Planning	Policy Unit	General Counsel's Office	Chief Economist's Office	Enquiries and Preliminary Investigation	Market groupings		Mergers	Cartels	Case Support and Training	Consumer Direct	OFT Plus	Scambusters
					Services	Goods						
Communications Sue Cook				Executive Office Erik Wilson			Operations Bart Smith					
Press Office	Consumer Communications	Business Communications	Library	Private Office	Stakeholder Liaison	Internal Communications	Facilities Management	Finance and Procurement	Human Resources and Talent Management	Information Technology	Risk Management	

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.

Marking a new phase in the evolution of the OFT's governance structure, we have appointed three new non-executive directors, and two executive directors. The executive director posts are new to the structure, and their purpose is to strengthen both the board and the executive. Christine Farnish stepped down from her role as a non-executive director in July 2006, and Rosalind Wright completed her term in March 2007.



Philip Collins



John Fingleton

Chairman

Philip Collins became Chairman of the OFT in October 2005. He is a solicitor who has practised in UK and EU competition law for more than 30 years. He was formerly a partner in international law firm Lovells where, in 1978, he was the first partner appointed to specialise in competition law. He went on to be made head of the firm's competition and EU law practice. Subsequently, he was Senior Counsel at Wilmer Cutler Pickering Hale & Dorr LLP, based in Brussels. He was one of the founders of the Competition Law Forum at the British Institute of International and Comparative Law.

Chief Executive

John Fingleton became Chief Executive of the OFT in October 2005. He had previously been Chairperson of the Irish Competition Authority since May 2000. Prior to that, he taught economics at Trinity College, Dublin, and held visiting positions at universities in Brussels and Chicago.



Allan Asher



Lord Blackwell

Non-executive directors

Allan Asher is Chief Executive of energywatch. Previously he was the Campaigns Director of the Consumers' Association. He is also Director of the Foundation for Effective Markets and Governance in Canberra, Australia, and Chair of the Consumer Policy Committee of the British Standards Institute.



Richard Whish

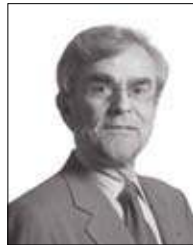


Bronwyn Curtis

Lord Blackwell is non-executive Chairman of Interserve plc and a non-executive director of Standard Life plc and Slough Estates plc. He is also an adviser to KPMG Corporate Finance, and Chairman of the Centre for Policy Studies. He was formerly head of the Prime Minister's policy unit and Director of Group Development, NatWest Group.



Alan Giles



Professor Frédéric Jenny

Richard Whish is Professor of Law at Kings College, London, where he has worked since 1991. He was in legal practice, as a partner, 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.



Sean Williams



Jonathan May

Non-executive directors – commencing 1 April 2007

Bronwyn Curtis 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 Managing Editor and a columnist in Europe for Bloomberg LP. Mrs Curtis has, in the past, held various economics, strategy and management roles at Nomura, Deutsche Bank and Masterfoods.

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

Professor Frédéric Jenny is 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 Conseil de la Concurrence (Competition Council) in France and latterly became its Vice-President.

Executive directors

Sean Williams will join as an executive director for Markets and Projects in June 2007. He was previously Competition Partner and board member at Ofcom. Prior to that, Sean was a partner in LEK Consulting, a special advisor at the Prime Minister's policy unit and previously held senior management positions in the private sector.

Jonathan May became an executive director of Policy and Strategy in October 2006. He was previously Director of Markets and Policy Initiatives. He joined the OFT in 2001 following two and a half years as Director of UK Competition Policy at the Department of Trade and Industry. He previously worked at the Treasury with responsibility for handling competition, utility regulation and energy issues.

Senior staff



Bart Smith



Christine Wade

For the financial year 2006-2007, the senior management team was composed entirely of permanent civil servants, all of whom were members of the Senior Civil Service. Their appointments were made under the terms of the Civil Service Management Code. The Senior Director for Competition, Vincent Smith, and Director of Communications, Mike Ricketts, left the OFT (in March 2007 and July 2006 respectively).

Chief Operating Officer

Bart Smith joined the OFT as its first Chief Operating Officer in April 2005 and leads the Corporate Services teams. After studying in the US, he joined the US Securities and Exchange Commission as a financial economist. He then came to Britain and worked for several companies including Coopers and Lybrand. He joined PricewaterhouseCoopers in 1997 where he was most recently Director of Performance Improvement Consulting.

Assistant Chief Executive, Consumer Advice and Trading Standards

Christine Wade was previously Director of the OFT's Consumer Enforcement division and, prior to that, Director of Co-regulation and Co-ordination within the division. She was President of ICPEN (International Consumer Protection Enforcement Network) 2004-2005. A former head of Essex Trading Standards Service, she was awarded an MBE for her services to Trading Standards in 2002.

General Counsel

Brian McHenry has been General Counsel to the OFT since 2006, having previously been its Solicitor since June 2004. He joined the Treasury Solicitors Department in 1978 and had two spells at the Competition Commission (formerly the Monopolies and Mergers Commission) including from 2000 to 2004 as its Chief Legal Adviser.

Acting Director, Communications

Sue Cook is Acting Director of Communications. Her previous role at the OFT was as head of publicity, marketing and consumer education. Before joining the OFT in 2000, Sue led communications teams for Lewisham and Medway Councils. She was previously joint Managing Director of a communications company providing services for financial and public sector organisations.

Chief Economist

Amelia Fletcher has been Chief Economist at the OFT since 2001. She was previously an economic consultant working on competition policy issues at Frontier Economics, and before that London Economics. She is a member of the Council of the Royal Economic Society.



Brian McHenry



Sue Cook



Amelia Fletcher



Daniel Gordon



Ali Nikpay



Alan Williams

Corporate governance and risk management

The OFT is committed to ensuring a high standard of corporate governance. The OFT board has responsibility for defining strategy and determining resource allocations to ensure the delivery of the OFT's objectives.

Executive management team

The executive focuses on managing our activities. From October 2006, executive members were John Fingleton, Jonathan May, Bart Smith, Christine Wade, and Daniel Gordon.

Audit committee

During the financial year ending 31 March 2007, the audit committee comprised independent members Nigel Matthews, Sir Geoffrey Owen and Tim Head, board member Lord Blackwell and executive member Christine Wade. It was chaired by an independent member, Nigel Matthews.

Acting Senior Director, Infrastructure

Daniel Gordon joined the OFT in 2003. Until last year he was Director of Market Studies. He joined the OFT from HM Treasury where he had responsibility for a range of issues in the areas of private and public sector productivity. He was previously an economic adviser at the Competition Commission and before that he was an economic consultant.

Senior Director, Advisory Policy and International

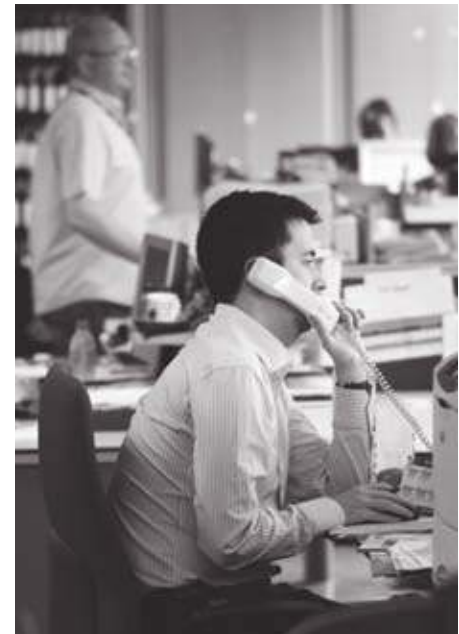
Ali Nikpay became Senior Director of Advisory, Policy and International in October 2006, having previously been the Senior Director for Policy and Case Scrutiny. He previously worked in private practice at Clifford Chance and also served at the Directorate General for Competition at the European Commission. He is a visiting fellow at the London School of Economics where he teaches European competition law.

Acting Senior Director, Services

Alan Williams became acting Senior Director of Markets and Projects (Services) in December 2006. He was previously a Director in the Competition Enforcement Division. Prior to joining the OFT in January 2000, he had worked for around five years as an Inquiry Director at the Competition Commission. His earlier career was spent mainly in HM Treasury where his work included public procurement, government IT and public expenditure control.

Directors

Services	Cartels	Operations
Harsha Shewaram Ray Hall Robin Finer Simon Brindley	Simon Williams	Darryl Fernandez Ray Watson
Goods	Advisory, Policy and International	Consumer Advice and Trading Standards
Louis Christofides Christiane Kent Ann Pope Graham Winton Jessica Farry	Sean-Paul Brankin Colin Brown Paul Gurowich	Christine Cryne David Fisher
Infrastructure	Mergers	Chief Economist's Office
Frances Warburton	Simon Pritchard	Tony Donaldson
Executive Office	Enquiries and Preliminary Investigations Centre	
Erik Wilson	Cavendish Elithorn	



Management commentary

Operating and Financial Review

The activities of the OFT are funded by Parliamentary Vote. In 2006–07, the OFT had a gross budget allocation of £77.88m for administration and programme resource expenditure and £2.70m for capital expenditure.

During the year, the OFT incurred gross expenditure of £74.53m 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 under spend of £3.25m was made up of £1.60m relating to Consumer Direct activities and £1.75m relating to other normal core activities.

The net operating cost during the year was £32.30m; the difference between the net resource outturn (£74.53m) and the net operating costs relates to income of £42.23m collected by the OFT and remitted to Treasury.

During the year there was a reduction in OFT's net assets from £1.37m to £0.20m. This was due to the one off effect caused by the addition of Consumer Direct and related to call centre costs.

The OFT also invested £2.44m in capital expenditure in the year in respect of furniture, office equipment, IT hardware, software, IT software licences and assets under construction.

The OFT received income of £8.59m 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 £33.48m relating to Competition Act 1998 (CA98) infringements. The OFT also received £0.15m in respect of recovered legal costs. All this income is surrendered to the Consolidated Fund.

The net cash requirement variation of £3.98m consists of an overall underspend of £3.36m on administrative resource expenditure plus an under-spend on capital of £0.25m and an accruals adjustment of £0.37m.

Supporting self-regulation

Consumer Codes Approval Scheme

We helped businesses improve their trading practices through our Consumer Codes Approval Scheme. We approved a new code that will benefit consumers in the home furnishings market, and helped several other code sponsors to progress towards approval. Evaluation of the scheme indicated that it was having a positive impact on levels of customer care without overburdening businesses. We also launched an initiative to link together local authority assured trader schemes.

We supported self-regulation through the Consumer Codes Approval Scheme, under which we approve and publicise effective consumer codes of practice.

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

Working with business

During the year, we continued to market the scheme to businesses and invited their representative bodies to seek OFT approval for their codes of practice. For example, we co-hosted a conference with the Trade Association Forum to highlight the benefits of the scheme to its members.

Following consultation on the structure and presentation of the core criteria we use in assessing codes of practice, we published revised criteria and guidance in November 2006.

As part of our work to measure the effectiveness of the scheme, we commissioned an independent review of its impact on business. This found that firms signed up to an OFT-approved code had a more structured and developed approach to customer service and were not incurring substantial additional compliance costs.

Raising consumer awareness

We stepped up our efforts to raise consumer awareness of the codes scheme.

In March 2007, we ran a major campaign to publicise the 'OFT Approved code' logo (see page 60). At the same time, we launched a revised consumer codes website. The site allows consumers to search for businesses signed up to OFT-approved codes, and to give feedback on the service they receive from those firms.

We commissioned research to gauge the effectiveness of the campaign and levels of consumer awareness of the 'OFT Approved code' logo. We planned to publish the findings at the end of May.

Approved codes

The code of practice operated by the Carpet Foundation became the first in the home furnishings sector to achieve OFT approval. The Carpet Foundation is a trade association that represents 11 carpet manufacturers and more than 1,000 independent retailers, whose sales account for over half those made by independents in the market.

Consumers dealing with Carpet Foundation members benefit from a range of free guarantees, including a two-year guarantee against manufacturing faults for carpets made by members, and a one-year guarantee against installation faults where the retailer is responsible for the installation.

Progress of other codes

Two more code sponsors completed Stage One of the scheme after satisfying the OFT that their codes met our core criteria. We provided advice to these sponsors on the evidence they need to provide that their codes are operating effectively so that they can complete Stage Two of the process and secure our approval.

The code sponsors who completed Stage One during the year were:

- The British Healthcare Trades Association, whose 300-plus members across the UK are manufacturers and retailers of assistive products and services such as mobility equipment for the elderly, stair lifts, and prosthetic and rehabilitation products.
- The Lift and Escalator Industry Association, whose code covers the sale, installation and aftercare of personal lifting products such as home lifts and stair lifts. The association's members account for 85 per cent of stair lifts and 95 per cent of home lifts made in the UK.

Throughout the year, we continued to support other code sponsors who were working towards either completion of Stage One of the scheme or final approval. We also provided informal advice to several code sponsors who had expressed an interest in the scheme. In total, we handled 21 applications to the scheme during 2006–07.

Local Authority Assured Trader Scheme Network

We helped set up an initiative to link together local authority assured trader schemes, which generally attract small, independent businesses.

The Local Authority Assured Trader Scheme Network (LAATSN) is for schemes that meet certain national standards. It aims to bring greater consistency to schemes operating at a local level, and places a strong emphasis on the standards of customer service.

The network, which complements our national Consumer Codes Approval Scheme, was launched in July 2006 at an event at the London Stock Exchange attended by 80 representatives from Local Authority Trading Standards Services, advisory bodies and other stakeholders.

By March 2007, the following schemes were LAATSN members:

- CustomerFirst (Devon County Council and Bath and North-East Somerset)
- South Yorkshire's Motor Trade Partnership
- Trading Standards South East – Buy With Confidence
- Rhondda Cynon Taff Building Trade and Motor Trade Charters
- Staffordshire and Stoke-on-Trent's Home Improvement Trader Register
- Dudley Trading Standards' Fix-A-Home listed trader scheme
- Perth and Kinross Better Business Partnership Scheme

- Tradewell in Sandwell.

Other scheme operators were in the process of applying to join.

The OFT provides the Chair and Secretariat to the National Standards and Support Committee of LAATSN, as well as project management.

In setting up and supporting the network, we worked alongside the Local Authorities Coordinators of Regulatory Services and the Trading Standards Institute.

LAATSN schemes can be single or multi-sector, and can cover one or more authorities or a region.

Performance against KPIs

Key performance indicators

Number of codes to have completed Stage One of the OFT approval process increases from 11 to 15.

Number of OFT-approved codes increases from five to eight.

Our performance

12 codes have completed Stage One

One further code approved, although total number of approved codes remained at five after ABTA's withdrawal from the scheme.

Spending

During 2006–07, the OFT spent £1.4m on achieving this objective. This money was allocated as follows:

Staff costs	£0.8m
Publicity and events	£0.1m
Other operating costs	£0.5m

Protecting consumers

We encouraged businesses to comply with the laws that protect consumers by giving them guidance and the opportunity to cease suspected breaches. Where they refused to change their behaviour, we took firm enforcement action. We worked closely with our enforcement partners at home and abroad, and began providing strategic leadership for Local Authority Trading Standards Services.

Credit

We helped ensure fairer treatment of consumers in the multi-billion pound consumer credit market.

Credit card and current account charges

The OFT secured significant benefits for consumers when UK credit card issuers reduced their default charges – the majority by almost half – in response to pressure we brought to bear on them.

In April 2006, following a detailed investigation, we announced that we believed credit card default charges had generally been set at a significantly higher level than was fair, and called on card issuers to review and amend their charges. Many issuers stated that they did not agree with our view of the law but all nevertheless reduced their charges. In light of the substantial reduction in charges across the market, we believe no further intervention is warranted at this time.

At the same time, we made clear that we considered it likely that the broad principles in relation to default charges were relevant to other standard agreements with consumers such as those for bank current accounts. The banking industry challenged this view and in September 2006 we launched a fact-finding exercise on current account charges.

This led us to announce, in March 2007, that we would undertake an in-depth study of retail bank pricing, alongside a formal investigation

into the fairness of current account charges. We expect to complete the study by the end of the year.

Individual Voluntary Arrangements

We warned 26 financial management businesses promoting Individual Voluntary Arrangements (IVAs) that we considered their adverts and websites to be potentially misleading. We also stated that we believed they might be in breach of our guidance for consumer credit licence holders engaged in debt management.

Our warnings followed a review of 125 national newspaper adverts, 63 websites and seven television adverts promoting and marketing IVAs.

IVAs are increasingly used by consumers in debt as an alternative to bankruptcy. With the agreement of the majority of the creditors, consumers are allowed to pay back a proportion of the debt they owe over a set period.

We stressed that suppliers must be clear and honest about what IVAs can and cannot achieve for consumers in debt, and the possible negative implications of entering into such arrangements.

The majority of the businesses we warned took immediate steps to amend their advertising. In addition, several other businesses that had not received warnings asked us for advice on how they could ensure their own advertising was compliant. We continue to monitor the situation.

The Consumer Credit Act 2006 will strengthen our licensing powers and enable unfair credit agreements and practices to be more effectively challenged in the courts.

Credit advertising

One of the most important strands of our work is ensuring consumers are given transparent and balanced information by credit advertisements so they can make informed and rational purchasing decisions.

A two-year programme undertaken by the OFT in conjunction with our enforcement partners in Local Authority Trading Standards Services (TSS) resulted in significant improvements in the compliance of credit adverts with the Consumer Credit (Advertisements) Regulations and the Consumer Credit Act.

Improvements were achieved in both the level and seriousness of non-compliance in newspaper advertising. They included a 32 per cent reduction in non-compliant credit adverts in regional newspapers between 2005 and 2007, and an 80 per cent decrease over two years in the proportion of adverts in national newspapers targeting the non-status sector that did not include the typical APR.

We also saw a 35 per cent improvement in the compliance of credit card advertising following consultation between the OFT and representatives of the credit card issuers.

In addition, we provided ongoing advice and guidance to businesses, trade associations, co-enforcers, regulatory bodies and other stakeholders. This included the novel step of advising publishers of national newspapers about their

responsibilities under the Consumer Credit Act to screen out obviously misleading adverts.

Debt collection

We completed our review of the compliance of debt collectors with OFT guidance on their duties as holders of consumer credit licences. We found that the guidance had been successful in raising awareness among debt collectors of their responsibilities. We also learned that 85 per cent of debt collectors we had approached informally because we suspected them of non-compliance had subsequently come into line.

Nevertheless, we acknowledged there was more to do to improve compliance. In particular, we committed to working with industry stakeholders to monitor the market more proactively. In the longer term, when the Consumer Credit Act 2006 comes into force, we will be better able to enforce the requirements set out in the guidance.

Overseas credit card transactions

The issue of whether section 75 of the Consumer Credit Act applies to credit card transactions involving overseas purchases continued to be the subject of legal argument between the OFT and three credit card issuer representatives – Lloyds TSB Bank plc, Tesco Personal Finance and American Express Services Europe Limited.

A Court of Appeal ruling in March 2006 had confirmed that section 75 applies to overseas purchases, thus overturning a previous decision by the High Court. However, in January 2007, the House of Lords granted permission for the Court of Appeal's ruling to be appealed. The agreed Statement of Facts and Issues was filed on 15 January 2007, and the hearing was listed for 2 and 3 October 2007.

Section 75 makes credit card issuers individually as well as jointly liable with suppliers if the consumer has a valid claim for misrepresentation or breach of contract (where the purchase price is above £100 but no more than £30,000).

Preparing for enhanced powers

The Consumer Credit Act 2006 modernises the regulatory framework for consumer credit. Among other things, it will strengthen our licensing powers and enable unfair credit agreements and practices to be more effectively challenged in the courts.

As part of our preparations for the Act's coming into force, following consultation we published guidance on the provisions in the Act concerning unfair credit relationships. The guidance outlines to businesses, their advisers and consumer organisations how the OFT may use its enforcement powers to address unfair relationships.

We also began drafting guidance on other key provisions of the

Scams

Act relating to the revised fitness test applied to consumer credit licence applicants and holders, the requirements that can be placed on licence holders, and the financial penalties that will be available where requirements have been breached. Following consultation, we plan to publish the final guidance towards the end of 2007 in advance of the new licensing provisions commencing in April 2008.

Licensing

Businesses involved in consumer credit or hire must have a consumer credit licence. The OFT protects consumers by monitoring the fitness of those holding or applying for licences.

On top of our day-to-day licensing activity, we continued to develop a new computer system for credit licensing. This will allow more effective and efficient fitness checking of licence holders and applicants. We experienced some delays in implementing the system, and extended our deadline for it to be fully live to May 2007.

We tackled mass-marketed scams through targeted enforcement, consumer education and disruptive action. We estimated that each year our work to prevent scams saves consumers around £10m.

Research

In December 2006, we published the findings of groundbreaking research into the prevalence of mass-marketed scams in the UK. The research, involving more than 11,200 interviews, found that UK consumers lose around £3.5bn to scams every year. More than three million adults fall victim to a scam annually, and the average amount lost per scam is £850.

Targeted enforcement

Our Scambusters team concentrated its efforts on the most harmful scams.

We acted against the perpetrators of three misleading premium-rate prize promotions. In the most important case, our intervention led to undertakings being given by Churchcastle Ltd in the High Court. The company promised not to publish misleading prize draw advertisements or promote unlawful lotteries. Churchcastle had distributed more than 446,000 mailings urging recipients to call a premium rate number to find out what award they had won. At least 56,000 people called at a cost of up to £7.50 each. We considered the mailings were misleading as they gave the impression recipients had won a major prize when nearly everyone

who responded was awarded a low value 'giveaway' item.

We also undertook a compliance sweep of the internet targeting UK-based websites making potentially misleading health claims. Operators of sites that appeared to be contravening consumer laws were contacted to secure changes.

During the year, we published the details of a number of potentially misleading clairvoyant mailings to warn consumers of the pitfalls of responding.

In our cross-border enforcement, we obtained undertakings from two holiday club promoters based in Spain. These committed the clubs to improved contracts and marketing practices and the introduction of cooling-off rights. We also agreed with our Spanish counterparts a protocol for referring complaints about bogus holiday clubs, fraudulent timeshare resale and fake Spanish lotteries with a view to enforcement action by the Spanish authorities.

We initiated court proceedings in the Netherlands against a Dutch mail order company, Best Sales B.V. The company, trading as Best Of and Oliveal, had been sending unsolicited mailings to UK residents offering household goods and health remedies by mail. We considered the mailings misled UK consumers, and subsequently breached the Dutch implementation of the Misleading Advertising Directive. Following a hearing on 10 October 2006 in the Commercial

UK consumers lose around £3.5bn to scams every year. More than three million adults fall victim to scams annually, and the average amount lost per scam is £850.

Court in Breda, the court ruled that Best Sales B.V. had not breached Dutch law. We lodged an appeal.

We also obtained assurances from several overseas companies behind mailings making potentially misleading claims about weight loss and male sexual enhancement.

Consumer education

We ran a month-long Scams Awareness Campaign in February 2007 (see page 59).

Partnerships

The sheer scale of the problem of scams and the international nature of many of them mean that cooperation with our enforcement partners is vital.

We continued to lead the Scams Enforcement Group, which brings together representatives of TSS, the Serious Organised

Crime Agency and other relevant bodies. The group met quarterly to exchange intelligence and coordinate action.

We also co-hosted an Economic Crime Conference with the Metropolitan Police to explain and win support for action to combat scams.

As part of our disruptive work, we signed information-sharing protocols with Mail Boxes Etc (UK) Ltd and G3 Worldwide Mail NV (Spring Global Mail) to facilitate the exchange of information about the perpetrators of scams.

On the international front, we became formal members of the Toronto Strategic Partnership, a joint venture between Canadian, US and UK enforcers to combat cross-border sweepstake, lottery and telemarketing scams.

Regulatory leadership

This year saw the OFT take on our new role of champion and regulatory leader of TSS as outlined in the Government's December 2005 Pre-Budget Report.

Our main focus was on strengthening our relationships with TSS. For example, we established a coordination team of four Partnership Managers who have responsibility for establishing greater collaborative working with TSS within a particular region, and for ensuring effective communication between TSS and the OFT.

Following consultation with TSS, we launched a programme of joint action that sets out our shared vision for TSS and our plans for enhancing their ability to deliver in accordance with the principles of Better Regulation. Staff from the OFT and TSS began working together to implement these plans, including through projects designed to improve the sharing of information and best practice.

We were also proactive in engaging with other government departments and agencies that work with TSS to deliver consistent service at national and regional level.

Enterprise Act coordination and support

Under Part 8 of the Enterprise Act 2002 (Part 8 EA2002), the OFT is responsible for coordinating action by TSS and the Designated Enforcers against traders breaching certain key consumer laws.

We provided an increasing level of casework support to our co-enforcers throughout the year. This ranged from answering simple telephone queries to drafting documents and advising on evidence, disclosure, court procedures and the applicability of certain laws.

We also provided training for TSS in the use and scope of Part 8 EA2002. We continued to deliver the Part 8 EA2002 advanced training course and introduced two new training packages covering the Civil Procedure Rules and the needs of local authority legal teams. An independent evaluation of our training found it significantly improved the ability of TSS to understand and apply the legislation. It also concluded that our training saved local government £5m per year for an outlay of approximately £150,000.

In addition, we established regional enforcement forums as a means of sharing best practice and encouraging enforcers in that region to work across traditional boundaries. The first-ever OFT information day for money advisers and debt counsellors

was held in Scotland in October, and Scottish enforcers benefited further from a special cross-OFT event immediately before the Scottish Trading Standards Institute conference later the same month.

Around 1,800 staff from TSS benefited from training or attendance at the regional forums and similar events.

With our support, TSS were able approximately to triple their level of Part 8 EA2002 enforcement in the calendar year 2006 compared with the previous year.

Consumer Direct

In our first year of managing Consumer Direct, it provided advice to almost 1 million consumers.

The OFT took over management responsibility for Consumer Direct, the national telephone and online advice service, at the start of 2006–07.

During the year, the service received more than 1.7 million telephone calls and e-mails from consumers. Customer surveys showed that 86 per cent of those using Consumer Direct were satisfied or very satisfied with it. They also indicated that 75 per cent of customers had not previously sought help with their problem from any other official source, which suggested that the service was reaching consumers who might not otherwise have received help.

Consumer Direct has gained a growing reputation for the delivery of rapid, high-quality advice of direct benefit to consumers. By the end of the year, 97 per cent of TSS were diverting their calls to Consumer Direct. Also, market research in 2006 showed that 21 per cent of the adult population were aware of Consumer Direct.

Market intelligence

All calls to Consumer Direct are logged on a database, which provides the OFT and TSS with valuable intelligence about problems facing consumers nationally and locally. This helps us decide where we and our partners need to act to improve trader behaviour.

Use of the database grew substantially and the number of reports run by database users increased three-fold from the previous year.

An independent evaluation of usage of the database by TSS found that it:

- was universally welcomed
- gives national visibility of trader complaints
- is used in a variety of ways, including to identify potentially illegal activity for further investigation
- is used for search and analysis of trends in consumer detriment.

The report also highlighted ways we could improve use of the database, including by enhancing its functionality and providing more support and guidance to users. We examined the feasibility of making these improvements with a view to introducing changes in 2007–08.

Extended remit

We welcomed the Government's proposal to extend the remit of Consumer Direct to cover initial enquires and complaints from consumers in the gas, electricity and postal service sectors. This change was put forward in the Consumers, Estate Agents and Redress Bill (for more information, see page 37).

Consumer Direct:
www.consumerdirect.gov.uk

Other key consumer enforcement work

Ryanair

Passengers of the budget airline Ryanair are now enjoying fairer contract terms following OFT action.

We had three main concerns, which Ryanair acted to address:

- Ryanair excluded liability for damage or delay to sporting equipment, infant equipment, medical and mobility equipment and musical instruments. Ryanair removed these exclusions.
- Ryanair required that if luggage was reported lost and not found within 21 days, the customer would have to make another claim within a further 21 days or Ryanair excluded its liability. Ryanair removed the requirement for the second claim.
- Ryanair's terms did not reflect consumers' full rights under the European Union (EU) Regulation (261/2004) that protects consumers who are denied boarding or whose flights are delayed or cancelled. Ryanair amended its contract and added an explanation of consumers' rights to its website.

Announcing the changes Ryanair had made, we called on other airlines using similar terms to stop doing so immediately or face OFT action.

Magnopulse

Magnopulse Limited, a company that manufactures and sells magnetic therapy products, agreed to change its advertising after we intervened. Magnopulse made various assertions about the products, including the claim that the devices were "clinically proven", and they relied on a large number of reports in support. We disputed the validity of the claims and questioned the authority of the reports relied upon. The case was settled when Magnopulse gave undertakings to the court that the advertising would be changed.

MB Designs

We continued our action to get Glasgow-based double-glazing supplier MB Designs (Scotland) Ltd to improve the standard of its products and services. In 2005, the Court of Session granted interim enforcement orders against the company under Part 8 of the Enterprise Act for breaches of the Supply of Goods and Services Act, the Sale of Goods Act and unfair contract terms legislation. We had given MB Designs the chance to sign undertakings that it would not repeat these breaches but it refused to do so. This year, MB Designs appealed to the Court of Inner Session, but the appeal was refused. We have now moved to secure a final order, and the court hearing is listed for November 2007.

Holiday and airline misleading pricing

We warned holiday and travel suppliers not to mislead consumers about prices by failing to include all fixed non-optional costs in their headline prices. We also secured agreement from the Association of British Travel Agents that it would remind its members of this as it is part of its code of conduct. We gave the industry until May 2007 to comply or face further enforcement action.

Trade association contract terms

We worked with a number of trade associations to help them draw up fair contract terms for their members to use in their consumer contracts. Associations we worked with included the National Association of Estate Agents and the British Association of Balloon Operators.

The Consumers, Estate Agents and Redress Bill seeks to implement the main recommendations made by the OFT in our 2004 market study reports on doorstep selling and on the estate agency market in England and Wales.

Guidance

We encouraged businesses to improve their trading practices and to understand and fulfil their legal duties by issuing guidance on the application of consumer laws. Examples are given elsewhere in this chapter. In addition, we issued joint guidance with the Department of Trade and Industry (DTI) on the Distance Selling Regulations. Although directed primarily at businesses, the guidance was also intended to help consumer organisations and OFT enforcement partners, principally TSS, to provide consistent advice to businesses and consumers on their rights and responsibilities under the Regulations.

Estate agency

Industry education

We extended our education work in the estate agency market in which we explain to agents their legal duties and provide examples of behaviour we consider unlawful. We gave compliance talks to a four large estate agency chains. We were pleased to note a subsequent drop in the number of complaints received about these agencies.

Stronger controls

We welcome the new Consumers, Estate Agents and Redress Bill which, among other things, will strengthen the regulation of estate agents. It proposes to extend the range of circumstances in which we can take action against estate agents. It will also require agents to keep records for a minimum of six years, and to join an approved redress scheme that will determine disputes between estate agents and buyers or sellers of residential property in the UK.

For more on the new Bill, see page 37.

International cooperation and enforcement

Cooperation Regulation

We prepared for the second phase of implementation of the Consumer Protection Cooperation Regulation (CPCR). The CPCR creates a Europe-wide network of public consumer protection bodies with new powers to tackle cross-border breaches of consumer law causing collective consumer detriment.

To fulfil our role as the body charged with coordinating action under the CPCR in the UK, we established and now lead an enforcement forum of all the UK bodies designated as competent authorities under the CPCR. We also developed and delivered a training programme and case-handling guidance for all UK designated competent authorities.

In addition, we issued guidance on carrying out on-site inspections – a new power enshrined in the CPCR and implemented in the UK through an amendment to the Enterprise Act. We collated responses to the consultation and published a final version of the guidance in May 2007.

Consumer detriment research

Unfair Commercial Practices Directive

We continued to work closely with the DTI on plans for implementing the European Commission's Unfair Commercial Practices Directive. The Directive, which comes into force in December 2007 and is due to be implemented in UK law in April 2008, introduces a general duty not to trade unfairly, as well as prohibiting specific practices that cause consumers harm, and sets common standards across the EU.

Jointly with the DTI and in partnership with stakeholders, we began drafting guidance on the application of the Directive. This will be issued for consultation in spring 2007 alongside the DTI draft Regulations. We also started work on developing a training programme for enforcers, which will be delivered ahead of the Directive's implementation.

Additionally, we responded to a DTI consultation on which offences should be strict liability, and proposals to give the OFT, as well as TSS, criminal enforcement powers in respect of the Directive.

Our pioneering research into consumer detriment found that feelings of disappointment, anxiety, annoyance and anger are often as significant to consumers as financial loss in transactions in which a supplier treats them unfairly. We reached this conclusion after applying to real-life transactions the findings of two earlier theoretical studies into the causes of consumer detriment.

By examining concrete examples of detriment, and looking at other data, notably complaints received by Consumer Direct, we were also able to begin improving the way we record information about our consumer enforcement work with a view to identifying clearer indicators of detriment.

After considering our findings to date, the European Commission took forward research into consumer detriment. We therefore decided to pause our own work in this area until after publication of the Commission's conclusions.

Eventually, we hope to be able to measure detriment nationally and in different markets, and use the results to target our resources on areas where our intervention will benefit consumers most.

Legislative changes

Consumers, Estate Agents and Redress Bill

We worked with the Government on the development of the new Consumers, Estate Agents and Redress Bill, which was introduced in November 2006. The Bill seeks to implement the main recommendations made by the OFT in our 2004 market study reports on doorstep selling and on the estate agency market in England and Wales.

In particular, the Bill will:

- give consumers who receive solicited visits from sales representatives the same cancellation and cooling-off periods they currently enjoy for unsolicited visits
- strengthen controls on estate agents (for more, see page 36)
- introduce measures to strengthen and streamline consumer representation in the UK by bringing together energywatch, Postwatch and the National Consumer Council
- extend the remit of Consumer Direct to cover initial enquiries and complaints from consumers in the gas, electricity and postal service sectors (for more on Consumer Direct, see page 34).

The Bill is currently in Parliament and is expected to receive Royal Assent in the summer of 2007.

Third Money Laundering Directive

On 22 January 2007, the Government announced that the OFT would be the supervisory authority for estate agents and certain consumer credit businesses. This decision followed a consultation by HM Treasury on the proposed implementation of the Third Money Laundering Directive.

The OFT responded to the consultation on 19 October 2006.

www.hm-treasury.gov.uk/consultations_and_legislation/money_laundering_directive

Performance against KPIs

Key performance indicators

Establish an intelligence-led system to enable risk-based targeting and prioritisation of our work by September 2006.

Publish guidance on the Unfair Commercial Practices Directive in draft for consultation by autumn 2006 and set up a training programme by early 2007.

Provide Consumer Protection Cooperation Regulation guidance and training to all UK designated competent authorities by December 2006.

Complete the second phase of the credit advertising compliance project leading to a 30 per cent reduction in levels of identified non-compliance with credit advertising law.

Complete review of compliance with our debt collection guidance and publish report in summer 2006.

Undertake eight education seminars aimed at estate agency businesses to facilitate improved compliance with the Estate Agents Act and related legislation.

Together with our partners, take action against the five types of mass-marketed scam identified as most harmful to consumers.

Our performance

Established horizon scanning/market intelligence function to analyse markets and bring together market intelligence from across the OFT to improve targeting and prioritisation of our activities. Also put in place a range of projects to develop use of intelligence across OFT activities, including consumer enforcement.

Draft guidance prepared, but consultation postponed following delays in implementation of directive. Training programme developed for delivery before directive implementation.

Developed training, case handling guidance and database training for the competent authorities and delivered it to them by the end of December 2006.

Completed second phase of project, undertaking review of regional newspapers in conjunction with TSS. Our compliance work resulted in a 32 per cent reduction in non-compliance.

Completed compliance review, and published report in December 2006.

Continued education programme for estate agents and delivered four seminars to major chains (several other chains declined our offer to conduct a seminar for their staff).

Worked with our partners to tackle the five most harmful types of scam: misleading premium-rate prize promotions; mailings and websites making misleading claims about weight loss and about sexual enhancement; misleading clairvoyant mailings; and unlawful holiday clubs.

Spending

During 2006–07, the OFT spent £10.4m on achieving this objective. This money was allocated as follows:

Staff costs	£8.2m
Litigation	£1.1m
Other operating costs	£1.1m

In addition, £0.5m was spent on the OFT plus programme, and £17.4m on Consumer Direct.

Enforcing competition

Enforcement priorities

Our enforcement work is central to rooting out and deterring anti-competitive practices and encouraging compliance with competition law. During the year, we conducted major investigations into suspected price-fixing of airline fuel surcharges and collusive tendering in construction contracts, and used our criminal investigatory powers in two separate cases. We also improved our processes to ensure we concentrate on key areas for consumers and the economy.

2006–07 was an important year in competition enforcement, with a number of key decisions in cases and in appeals before the Competition Appeal Tribunal (CAT).

The year also saw a substantial refocusing of our competition casework in line with the recommendations contained in the National Audit Office (NAO) report of November 2005 and the House of Commons Public Accounts Committee report of May 2006 (HC 841). The resulting changes led to improved prioritisation, both of existing investigations and of new competition cases. However, the work needed to review our existing casework and close much of the existing portfolio of cases, coupled with the OFT's major internal change programme, meant that we did not meet a number of the key performance indicators for competition enforcement contained in our 2006–07 annual plan.

In our 2006–07 annual plan, we said we would implement the NAO recommendations under four broad headings:

- improved timeliness of investigations – in particular ensuring that our existing caseload is dealt with effectively through better prioritisation
- better support for casework – especially through appropriate training
- better measurement of the outcomes of our competition enforcement actions
- better communication of the results of our work.

Our achievements in these areas and other competition enforcement and policy initiatives are detailed below.

Timeliness of investigations

We took steps to ensure that our finite resources are concentrated on high-impact cases. In October 2006, we published a Competition Prioritisation Framework setting out new criteria for deciding if a case should be opened or an existing investigation continued. For those thinking of referring competition issues to the OFT, the framework also provides a clear indication of how complaints will be assessed.

We estimated that each year enforcement action leading to infringement decisions saves consumers £64m.

Support for caseload

We arranged for all of our competition case handlers to undergo a series of training courses, run by Nottingham Trent University, on the project management of Competition Act cases. Additional skills training was developed in case analysis, fact management, interviewing and evidence gathering.

Measurement of performance

We began gathering information to help us gauge the impact on consumers of our enforcement actions. This included estimates of financial savings arising from past infringement decisions and the cost to the taxpayer of pursuing cases. We also conducted a survey of antitrust private practitioners to measure the deterrent effect of the UK competition regime. The results are due to be published in summer 2007.

This analysis will feed into our case prioritisation criteria to ensure that we concentrate our resources in areas that benefit consumers most.

We estimated that each year enforcement action leading to infringement decisions saves consumers £64m. This figure is calculated from a three-year moving average (i.e. the annual average based on estimates of consumer savings due to infringement decisions taken in the last three years).

Our performance in competition enforcement was benchmarked internationally through the Global Competition Review's Rating Enforcement Survey. In the latest survey, published in September 2006, the OFT was ranked fifth among global enforcers (compared with joint fourth in 2005). This was the fourth successive year that we had earned a top-five position.

Independent research commissioned by the OFT and published in June 2006 showed that, for the first time, more than half of businesses were aware of the Competition Act. This figure rose to 60 per cent for businesses with 10 or more employees – another new high. Ninety-five per cent of businesses questioned were aware of the OFT.

National Audit Office report, *'The Office of Fair Trading, enforcing competition in markets'*: www.nao.org.uk

Competition casework

Our casework, which covers both investigations and the handling of appeals, was characterised by a high degree of innovation this year. In particular:

- we continued our ground-breaking approach to seeking speedier resolution of large-scale cartel cases by offering a fast-track procedure to companies involved in our ongoing construction cartel investigation (see page 44)
- we resolved a competition case against 50 independent schools as a result of which a charitable trust was set up by the schools concerned to distribute settlement funds totalling £3m to the pupils affected (see page 43)
- we used Article 15(3) of the Modernisation Regulation, which allows us to make written and oral submissions in cases concerning Articles 81 and 82 of the EC Treaty, for the first time to intervene in the Crehan case in the House of Lords (see page 43)
- we intervened successfully in the Floe Telecom case in the Court of Appeal to establish limits to the powers of the CAT to give direction to regulators (see page 43)

- in the Casting Book and Cityhook appeals (see page 44), we obtained confirmation from the CAT that we could close a case on resource grounds without this decision being subject to a full merits appeal.

We gained useful clarification from two appeals to the CAT – by the London Metal Exchange (LME) and MasterCard – during which our decisions were withdrawn and set aside respectively. The CAT’s costs judgment in the LME case shed particular light on the test we must apply when considering applications for interim measures under the Competition Act.

Developments on criminal enforcement

Over the course of the year we used our criminal enforcement powers under the Enterprise Act in two separate cases. The first, relating to the OFT’s investigation of air passenger fuel surcharges (see below), is ongoing. The second, relating to tendering practices among certain construction firms, was eventually discontinued. We decided, after reviewing the evidence, that civil enforcement action was more appropriate in this case.

Statistics on our use of inspection and leniency powers under the Competition Act are provided on the OFT website, www.of.gov.uk

Private actions

In October 2006, we hosted a workshop on private actions under competition law, bringing together around 60 leading figures in the competition field, including agency heads, lawyers, economists, academics, policymakers and representatives of business and consumer organisations. The workshop considered whether the UK needs additional measures to facilitate private actions and, if so, what lessons we could learn from other jurisdictions. We published a discussion paper on possible next steps in April 2007, and will organise an event in September 2007 to allow third parties to make their views known to us.

Cartels policy

ECN Model Leniency Programme

In September 2006, the annual meeting of Directors General of European competition authorities endorsed a model leniency programme developed by a working group of the European Competition Network co-chaired by the OFT. This marked a significant step towards the harmonisation of leniency programmes across the European Union and will further facilitate the reporting of cross-border cartels in the EU.

OFT leniency and no-action guidance

Following consultation, we published final guidance on our handling of leniency and no-action applications in March 2007.

Guidance on procurement issues

In January 2007, the OFT and the Office of Government Commerce published a joint guide for public sector procurers of construction services on achieving value for money through the competitive process. Written in the light of several enforcement actions against construction firms (see page 44), the guide, *Making competition work for you*, also highlights practical steps procurers can take to avoid falling victim to bid-rigging or price-fixing cartels.

Our two-year investigation into bid-rigging by construction companies in England has uncovered evidence of unlawful practices in thousands of tenders with a combined estimated value approaching £3bn.

Key investigations

Air passenger fuel surcharges

We investigated allegations that certain airlines operating in the UK had engaged in price-fixing activities relating to the fuel surcharge element of the ticket price for long-haul passenger flights to and from the UK. Two parallel investigations were in progress: one against the implicated companies under the Competition Act and a second against specific individuals using our criminal powers under the Enterprise Act. In both cases, we liaised where necessary with the US Department of Justice, which had launched a separate inquiry into the US aspects of the suspected infringement.

Construction

Our two-year investigation into bid-rigging by construction companies in England has uncovered evidence of unlawful practices in thousands of tenders with a combined estimated value approaching £3bn.

During our inquiries, we have raided 57 companies and received 37 applications for leniency. We have also used digital evidence-gathering and forensic IT for the first time to retrieve information held on computers, along with forensic document analysis where we suspect an attempt has been made to hide evidence.

The evidence gathered relates to bid-rigging activities such as 'cover pricing', where companies obtain a price from a competitor in the tender process which is not designed to win the contract but is intended to give the appearance of competition. In some instances we found evidence that compensation payments or 'bungs' were passed between competitors in exchange for a cover price.

To fast-track our inquiries, in March 2007 we offered to reduce the financial penalty for those implicated companies which had not applied for leniency but were willing to cooperate with the OFT in certain specific ways. We also informed construction companies in England that, given the extent and quality of the evidence obtained, no further applications for leniency in this investigation would be considered.

Key decisions

Spacer bars

In June 2006 we decided that four companies had agreed to fix prices and share the market for aluminium spacer bars, which are used in the manufacture of double-glazing, in breach of the Chapter I prohibition of the Competition Act. The infringement was brought to an early end as a result of our intervention. We imposed total penalties on the parties involved of £1.38m, reduced to around £900,000 under our leniency programme.

Scottish milk processing

We sent a statement of objections to a number of Scottish milk processing dairies in November 2006. This set out our provisional finding that the companies had engaged in price-fixing by sharing pricing information and coordinating a series of price increases. We also provisionally found they had colluded over arrangements not to compete for each other's customers – a form of market-sharing. The alleged infringement relates to the 'middle ground' market sector in Scotland, which includes customers such as schools, shops, cafes and hotels but excludes the big supermarkets and doorstep customers. At the end of the year, representations from the parties concerned were being considered.

Key court judgments

Independent schools

We decided in November 2006 that an agreement between 50 of the UK's fee-paying independent schools to exchange detailed fee information breached the Chapter I prohibition of the Competition Act.

The findings marked the end of one of the OFT's largest investigations, and resulted in total penalties of just under £500,000. The relatively low fine for each school took account of a number of exceptional features of the case, including the schools' charitable status and the fact that they had together agreed to make payments totalling £3m into a trust fund designed to benefit pupils who attended the schools during the relevant academic years.

In a novel approach to resolution, we worked with a steering group, chaired by the Independent Schools Council and including senior governors nominated by the schools, on a proposed settlement.

This was the first time the OFT had imposed penalties on charities and sent out a message that competition law applies to all businesses. We also warned charities not to assume that financial penalties would automatically be lower in their case.

Inntrepreneur v Crehan

The OFT was granted leave to intervene in a House of Lords appeal brought by Inntrepreneur Pub Company and others on points relating to the application of Articles 81 and 82 of the EC Treaty. Inntrepreneur was seeking to overturn an earlier Court of Appeal ruling which, for the first time in the UK, had imposed damages for harm suffered as a result of an infringement of competition law (in this case, Article 81 of the EC treaty). In its judgment of 19 July 2006, the House of Lords upheld the appeal and the original High Court judgment. It ruled, in line with the OFT's submissions, that the obligation on national courts to avoid conflicting decisions did not require that they follow a European Commission decision when considering an issue concerning different parties on a different subject matter.

Ofcom v Floe Telecom

The OFT intervened in support of a successful appeal by Ofcom against an order issued by the CAT. In line with Ofcom and OFT submissions, the Court of Appeal ruled that the CAT, on reaching a final judgment to set aside and remit a matter back to the regulator, does not have the power to order that a new investigation be carried out within a certain time. The judgment also contains helpful comments on the distinction between the role and functions of the OFT (and concurrent regulators) and the CAT.

Argos, Littlewoods v OFT and JJB v OFT (toys and replica football kit appeals)

In October 2006, the Court of Appeal found in favour of the OFT in three linked cases relating to price-fixing in the toys and games market and in the supply of replica football kit. This was the first time it had ruled in cases of this nature under the Competition Act.

The court dismissed in full both Argos's and Littlewoods' appeals against liability for their part in price-fixing of certain toys and games, and JJB Sports' appeal against liability for its price-fixing conduct in relation to replica football kit. Appeals by Argos, Littlewoods and JJB on the size of the penalty imposed by the CAT were also dismissed. The OFT was awarded its costs in defending these appeals. The three appellants were later refused leave to appeal these judgments to the House of Lords.

Competition Appeal Tribunal cases

Construction cartels

Following an OFT decision in February 2006 that 13 companies had colluded to fix the price of contracts for flat-roofing and car park surfacing, appeals were lodged by two of the parties. Makers UK Ltd challenged both its liability and the penalty imposed, while Prater Ltd appealed the penalty only. Prater later requested, and was granted, permission by the CAT to withdraw its appeal.

In February 2007, the CAT unanimously dismissed Makers' appeal against the infringement finding and, by a majority decision, dismissed its appeal against the level of penalty. In so doing, it confirmed that the method we use to ensure that penalties act as a deterrent is appropriate, and that we were right to seek to impose substantial penalties for infringements of this nature.

London Metal Exchange

An OFT interim measures direction preventing the London Metal Exchange (LME) from extending the trading hours for its LME Select electronic trading platform was the subject of an appeal to the CAT in April 2006. We lifted the direction the following month after substantial and material new information on the market for trading non-ferrous metals came to light. LME subsequently withdrew its appeal but was awarded a proportion of its costs by the CAT in September 2006.

Casting Book

Our decision to close an investigation into an alleged boycott in the supply of celebrity merchandise was appealed in April 2006 by Casting Book Limited, which had filed the original complaint with us. The company argued that, in taking this action, we had made a non-infringement decision which the CAT should review. However, the CAT ruled that our decision was not appealable and dismissed the case.

Stock check pads

The CAT found in our favour in a case relating to the supply of stock check pads in the UK. We had imposed total penalties of around £2.1m before leniency on a number of companies for fixing prices for these pads – which are used by restaurants and similar establishments to record customer orders – and agreeing not to compete for each other's customers. The CAT unanimously dismissed the appeal by Achilles Paper Group Limited and found that the penalty imposed upon it was appropriate.

Cityhook

Cityhook Limited, a submarine cable specialist, lodged an appeal against our decision to close our investigations, on the grounds of administrative priority, into an alleged collective boycott and collective setting of wayleave fees by a number of telecommunications companies. Following a hearing in January 2007, the CAT ruled that we had not taken an appealable decision in respect of our case closures, and that Cityhook's appeal was therefore inadmissible. The CAT had earlier dismissed Cityhook's application for disclosure of certain OFT internal documents relating to our decision.

Spacer bars

While there were no substantive appeals against our spacer bar decision of June 2006 (see above), Double Quick Supplyline Limited and Precision Concepts Limited challenged the level of penalty we imposed. The CAT dismissed the appeal in its entirety and awarded the OFT costs.

Terry Brannigan

In 2003, Mr Terry Brannigan complained to the OFT about potential abusive practices by newspaper publishers in his local area. We decided not to open an investigation on grounds of administrative priority and closed our file in September 2004. After Mr Brannigan applied to the CAT to appeal this decision, we revisited his complaint, but again concluded we had insufficient resources to proceed. Mr Brannigan pursued the matter with the CAT and the appeal is ongoing.

MasterCard

In June 2006, the CAT set aside, with our consent, our decision that the MasterCard UK Members Forum's (MMF's) historical arrangements for setting domestic interchange fees for purchases in the UK using UK-issued MasterCard credit and charge cards constituted an unlawful agreement.

This decision had been jointly appealed by MMF, MasterCard International Incorporated, MasterCard Europe Sprl and the Royal Bank of Scotland Group. Visa Europe Limited and Visa UK Limited (Visa), whose own interchange fee arrangements were being investigated by us, intervened in the appeal.

In a subsequent judgment we were ordered by the CAT to pay the reasonable and proportionate costs incurred by the appellants and Visa since 31 March 2006.

Following the CAT judgment we launched a fresh investigation into MasterCard's current interchange fee arrangements and continued our investigation into Visa's interchange fees. These investigations were subsequently extended to include debit cards.

Performance against KPIs

Following an internal review and a report from the NAO we identified the need to focus our competition enforcement work more closely on market outcomes in order to ensure that we are addressing issues of serious consumer detriment adequately.

In 2006–07 we reviewed existing casework against this criterion. This led to a decision to close much of the existing portfolio of cases to avoid diverting resources from high-impact cases. Closing these cases in itself involved a significant commitment of resources which prevented us from meeting the output targets set out in our annual plan.

As a result of this process, we are now in a better position to focus our resources on high-impact cases going forward.

Key performance indicators

We expect to begin investigations in 25-40 cases where we suspect an infringement. We will increase the number of these that are 'own initiative' investigations.

We expect to make between five and 10 reasoned and published decisions under the Competition Act 1998.

We expect to publish between 20 and 30 other case closure summaries of which five to 10 will involve informal resolution of potential competition issues.

We will give a first substantive response to competition complaints within 30 working days in 90 per cent of cases.

By May 2006 we will publish the average time it has taken for our completed investigations under the Competition Act to progress:

- from complaint (or other commencement) to the beginning of a 'formal' investigation
- from the beginning of the 'formal' investigation to either closure, Statement of Objections or notice of intention to accept commitments
- from Statement of Objections to decision.

We will repeat this annually.

Our performance

Nine investigations were opened, including two investigations launched under the Enterprise Act 2002, none of which were 'own initiative'.

Two infringement decisions were issued.

We published three case closure summaries, two of which involved informal resolution of cases. Nine other cases were closed as part of the introduction of our prioritisation criteria – none of these was published.

We gave a first substantive response within 30 working days in 89 per cent of cases.

Since October 2006, complaints have also been received by our Enquiries and Preliminary Investigations team – these complaints have not been included in this percentage due to a change in recording details.

This information was not published: we have found the average time data to be less useful than expected due to the large differences in case timing from one case to another, depending on the complexity of the issues and the number of parties involved. We are looking for ways to make this information more useful.

By June 2006 we will have adopted guidance with a view to:

- consulting complainants before finally dealing with their complaints
- being clearer at the Statement of Objections stage, to enable complainants and others to provide input to the case process before a final decision is made

We will conduct a survey of business and consumers, to be published by June of each year to find out current levels of awareness of competition law.

Before April 2007 we will publish for comment our proposals for improved performance indicators for our competition enforcement work. In particular:

- we will develop a method of calculating a more comprehensive estimate of consumer savings from our competition enforcement work which will be published for comment
- we aim to improve year on year our overall 'benchmark' position as an effective competition enforcement agency both in national and international specialist surveys

We published a guidance document, *Involving third parties in Competition Act investigations*, in April 2006.

We conducted research and published the findings in a paper, *Competition Act and Consumer Rights*, in June 2006.

We continued work to quantify the deterrent effect of the merger and Competition Act regime. This will be published in summer 2007.

Also, we developed a new 'hazard model' to improve estimates of the likely duration of a cartel if the OFT had not investigated it. We will publish details of this model during 2007–08.

We were placed fifth in the Global Competition Review's annual rating of competition agencies for 2006 (compared with joint fourth in 2005).

Spending

During 2006–07, the OFT spent £12.3m on achieving this objective. This money was allocated as follows:

Staff costs	£9.8m
Other operating costs	£2.5m

Reviewing mergers

We worked to keep markets open and competitive through merger control. We referred mergers to the Competition Commission, or accepted undertakings in lieu of a reference, where we believed there was a realistic prospect of a substantial lessening of competition.

Merger caseload

We investigated 131 public mergers during the reporting period, of which 30 required consideration by a Case Review Meeting – an internal forum where findings in more complex cases are tested prior to a decision. We made 13 references to the Competition Commission (CC) and accepted undertakings in lieu of reference (UILs) in six cases.

During the year, we piloted the use of merger simulation to measure the impact on consumers of our mergers work. Full details of our methodology will be published on the OFT website.

We estimated that consumers save around £52m a year as a result of the OFT's mergers work. This figure is based on a three-year moving average and includes all UILs and published CC decisions for 2006–07.

To assess the deterrent effect of the UK merger regime, we conducted a survey of antitrust practitioners. We expect to publish the findings in summer 2007.

As part of a commitment to review and improve what we do, we engaged in informal consultation on our procedures with the competition and business community in workshops in London and Brussels. We also issued interim guidance on informal advice and pre-notification contacts.

In light of consultation and recent case experience we are finalising revised draft procedural guidance to be put to formal consultation early in the 2007–08 financial year. We have also prepared a substantial revision to our guidance on markets of insufficient importance for formal consultation in spring 2007. A separate consultation on new key performance indicators for our merger work began in April 2007.

Details of all merger cases opened in the year – including CC references and undertakings accepted in lieu of reference – can be found on the OFT website, www.of.gov.uk

Key cases resolved by the OFT

Successful defence of our decision in Boots plc/Alliance Unichem plc

This substantial UK merger in the pharmaceutical sector was conditionally cleared by the OFT, subject to the parties agreeing to divest around 100 pharmacies across the UK. These divestments were in local overlap areas where the merger reduced the number of competing pharmacies within a mile of each other from two to one, or from three to two.

In May 2006, the Competition Appeal Tribunal (CAT) upheld our decision following a challenge by Celesio AG, the major competitor to the merging parties.

This was our first win in the CAT under the Enterprise Act merger control regime. Our decision and robust stance in the face of threats of litigation were broadly welcomed by the UK legal community. The case also demonstrated our ability to resolve complex and problematic issues in first-phase UK merger control where parties are willing to engage constructively on remedy proposals.

Clearance of NASDAQ's bid for the London Stock Exchange

In January 2007, we cleared the bid by The Nasdaq Stock Market, Inc. (NASDAQ) for control of the London Stock Exchange Group plc (LSE).

It was the fourth time we had scrutinised a proposed takeover of the LSE. Two earlier bids, by Deutsche Börse and Euronext, were referred to the CC, while a third, by Macquarie Bank of Australia, was cleared on competition grounds but was ultimately unsuccessful.

While NASDAQ's hostile bid sparked intense public debate over the future of London as a global financial centre and the relative merits of UK and US regulation, our focus was solely on its potential impact on competition in the markets for listings and equities trading.

We determined that NASDAQ did not materially compete with the LSE for listings by UK issuers. In UK equities trading, we concluded that NASDAQ might be a potential entrant in the absence of a merger, but that a merged NASDAQ/LSE would not face a materially lower entry threat than the LSE does today. We further concluded that, in this particular case, any merger impact in the markets for international listings by non-UK customers fell outside the substantive test for merger control. Our evidence, however, suggested that the proposed bid would not adversely impact these customers either.

NASDAQ's £2.7bn offer eventually expired without gaining majority support from LSE shareholders.

Conditional clearance of Flybe's acquisition of BA Connect

The airlines Flybe and BA Connect both operate services on a number of routes within the UK and between the UK and European cities. We found that competition concerns arose on one route only, from Southampton to Manchester. Evidence suggested that effective entry on this route was difficult due to the lack of overnight parking capacity at Southampton airport. In lieu of a reference to the CC, Flybe offered to provide a potential new entrant with a parking stand at Southampton. We believed such an undertaking would address our competition concerns and started a consultation on this with third parties in April 2007.

Conditional clearance of Tetra Laval Group's acquisition of Carlisle Process Systems

We accepted undertakings offered by Tetra Laval Group, a supplier of cheese-making equipment, to address competition concerns arising from its anticipated acquisition of part of Carlisle Process Systems from Carlisle Companies Inc.

Our concerns related to the supply to UK customers of certain equipment used for the industrial manufacture of cheddar cheese. We considered that the merger

of two leading competitors in the supply of vats, cheddaring machines and cheese towers to UK customers would reduce competition and innovation, resulting in higher prices and lower levels of service in the sector.

To address these issues, the parties offered to grant intellectual property (IP) rights relating to cheese equipment sold under the Wincanton brand to a rival manufacturer, Moody plc. Following a public consultation, we accepted these undertakings in lieu of a CC reference.

The case set a precedent as it was the first time we had accepted the licence of IP rights as the sole remedy for merger concerns, and specified an up-front, named purchaser of divestment assets before accepting undertakings in lieu of reference.

Conditional clearance of Pendragon's acquisition of Reg Vardy

A key consideration in our review of car dealership consolidation is the fact that customers tend to entrust the service and repair of new and nearly new cars to franchised dealerships. In the case of the proposed acquisition by Pendragon of Reg Vardy, our investigation pinpointed four local areas in the UK where the loss of a Reg Vardy dealership raised serious competition concerns by merging important competitors in the servicing of new and nearly new Nissans, Vauxhalls or Land Rovers.

In lieu of a CC reference, Pendragon offered to divest its dealerships in these areas. We accepted these undertakings in September 2006.

Conditional clearance of the Co-operative Group's acquisition of Fairways

Funeral services are typically purchased at short notice in a time of distress, so it is important that mergers in the sector do not deprive consumers of the benefits of competition on customer service, as well as price. The acquisition of Fairways Group UK Limited by the Cooperative Group (CWS) Limited (CGL) raised such concerns in relation to the supply of funeral directing services in five local areas – Southampton, New Forest, Eastleigh, Woking and Wychavon.

Following our review, CGL offered to divest a number of funeral businesses in each of these areas. This clearly resolved the issues we had identified, and the merger was not referred to the CC.

Conditional clearance of Aggregate Industries' acquisition of Foster Yeoman

We requested jurisdiction from the European Commission to examine the impact in the UK of the completed acquisition by Aggregate Industries Limited of Foster Yeoman Limited, a supplier of asphalt and aggregates to the construction industry. This request was made under Article 9 of the EC Merger Regulation (see below).

Our subsequent investigation concluded that there was a realistic prospect of a substantial lessening of competition in the supply of asphalt from plants in two local areas in the South East of England by removing an independent competitor from the market. In Hertfordshire, the merger brought together the two main competitors into the same joint venture, raising the possibility of coordinated interaction.

Aggregate Industries proposed divestments in all three areas to address our concerns. These were accepted in lieu of a CC reference in January 2007.

Key cases sent to the Competition Commission

We referred a number of cases to the CC which led to remedial action being taken to protect consumers. These included:

- Stonegate/Deans – a completed merger of the two leading competitors creating a dominant firm in the supply of eggs in the UK
- Hamsard/Live Nation – an anticipated merger that would have placed certain key competing live music venues in London – the Hammersmith Apollo, the Brixton Academy, the Shepherd’s Bush Empire, the Astoria and the Forum – under common ownership
- Stagecoach/Citylink – a completed merger of the only two providers of inter-city coach services on a number of Scottish routes
- Stericycle/STG – a completed merger of the two principal competitors in the disposal of healthcare waste in certain areas of the UK
- Svitzer/Adsteam – an anticipated merger of the only two providers of harbour towage services in the port of Liverpool.

EC casework

The EC Merger Regulation (ECMR) gives the European Commission exclusive jurisdiction over mergers that exceed certain turnover thresholds. As the competent authority in the UK, we examined significant cases and provided the UK’s views to the European Commission. We also represented the UK at all hearings and Advisory Committee meetings at which the Commission’s draft decisions and policy notices were considered by member states.

We made two requests under Article 9 of the ECMR to refer to the UK competition authorities a merger previously notified to the European Commission.

The first request related to the proposed acquisition by Veolia ES Holdings plc of Cleanaway Holding Limited and concerned the UK market for the disposal of industrial and commercial hazardous waste. We subsequently withdrew the request after the Commission secured remedies to address our concerns.

The second request related to the completed acquisition by Aggregate Industries Limited of Foster Yeoman Limited (see above case study).

Under Article 22 of the ECMR we referred to the European Commission the anticipated acquisition by P.H.Glatfelter Company of certain assets of J.R. Crompton Limited and the acquisition by Thrane & Thrane of Nera Satcom AS.

We considered a number of requests for pre-notification referral of a merger either from the UK to the European Commission (under Article 4(5)) or from the European Commission to the UK (under Article 4(4)). We agreed to the referral to the UK under Article 4(4) of the following cases:

- completed acquisition by Inchcape plc of European Motor Holdings plc
- completed acquisition by O2 UK Limited of Link Stores Limited
- anticipated acquisition by Govia Limited (through its wholly owned subsidiary, North London Orbital Railway Limited) of the London Rail Concession.

Performance against KPIs

Key performance indicators

We expect to consider between 180 and 230 public mergers and we expect 30-50 of these will merit detailed consideration at case review meetings.

We expect to refer to the Competition Commission or accept undertakings in lieu of a reference for between 20-25 mergers.

By April 2007 we will publish for comment our proposals for improved performance indicators as noted above under Objective 3.

Our performance

Target not met (although it should be noted that the number of qualifying mergers is beyond our control). Possible factors include greater self-determination caused by increased merger fees, and a rise in the number of cases referred to the European Commission under Article 4(5) of the ECMR.

Considered 131 public mergers during 2006–07, of which 30 led to case review meetings.

Referred 13 transactions to the CC (including one automatic water reference). Accepted UILs in six cases.

Published details of new methodology for measuring the benefits of UILs in April 2007.

Continued work to quantify the deterrent effect of the merger and Competition Act regime – this will be published in summer 2007 (as noted in the 'Performance against KPIs' table on page 47).

Spending

During 2006–07, the OFT spent £2.3m on achieving this objective. This money was allocated as follows:

Staff costs	£2.1m
Administration	£0.2m

Studying markets

We examined a wide range of markets to assess if they were working well for consumers, and referred the markets for groceries, payment protection insurance and the supply of airport services by BAA to the Competition Commission for further investigation. We set up a new function to ensure that our market studies are focused on high-impact areas, and published a strategy and framework for evaluating their effectiveness. We also commissioned the first independent review of a completed study, which showed that consumers and businesses had benefited.

Our studies focus on markets which do not appear to be working well for consumers, or may be adversely affected by government regulation. Where problems come to light, we suggest specific remedies or obtain undertakings from the industry in question. If our concerns cannot be addressed in this way, we refer the market to the Competition Commission (CC) for further investigation.

During the year, we set up a new monitoring function to help identify the areas where we should target our resources. This work involves sifting through market intelligence supplied by stakeholders and Consumer Direct and assessing the likely impact of studies on consumer detriment and productivity. We also carried out the first independent evaluation of a completed study (see page 55). This concluded that the financial savings to consumers and businesses accruing from our recommendations far outweighed the cost of the inquiry itself.

Market investigation references

Groceries

We referred the market for the supply of groceries by retailers in the UK to the CC in May 2006.

An OFT investigation had found that:

- the planning regime acts as a costly barrier to entry, making it difficult for new stores to open and compete with those already in the market
- big supermarkets have significant land holdings which could aggravate barriers to entry or otherwise harm consumers
- in some instances, supermarkets have attached restrictive covenants when selling sites
- there is evidence to suggest that the big supermarkets' buyer power has increased, and that some aspects of their pricing behaviour – such as below-cost selling and price flexing – could distort competition.

The decision followed a period of public consultation during which we received over 1,200 responses from businesses, consumers and other interested parties, the majority of which favoured a CC reference.

The CC outlined its emerging thinking in January 2007 and is due to publish a final report in early 2008.

We referred the supply of airport services by BAA to the CC after our market study found evidence of high charges and poor customer satisfaction.

Payment protection insurance

Consumers are getting a poor deal – and often less protection than they think – from the £5.5bn payment protection insurance (PPI) market, we concluded in a report published in October 2006.

Our study was launched in response to a super-complaint from Citizens Advice. It found, among other things, that the point-of-sale advantage enjoyed by distributors means there is little competitive pressure at the key point at which consumers buy insurance. This contributes to consumers not shopping around for the best deal. In some cases consumers also assume, or are led to believe, that taking out PPI will help with credit applications.

We recognised that the industry had been working with the Financial Services Authority (FSA) to address problems relating to sales standards. However, neither we nor the FSA believed that these initiatives would resolve the broader competition issues we identified.

After public consultation, we referred the market to the CC in February 2007. The CC is expected to publish its report in August –September 2008.

Airport services

We referred the supply of airport services by BAA to the CC in March 2007 after a market study found evidence of high charges and poor customer satisfaction.

BAA owns Heathrow, Gatwick, Stansted and Southampton airports in England and Edinburgh, Glasgow and Aberdeen airports in Scotland. These airports have an annual turnover of £2bn and handle over 60 per cent of all air passengers in the UK.

Our study, launched in June 2006, concluded that the current market structure does not deliver best value for air travellers in the UK, and that greater competition within the industry could significantly benefit passengers.

Other market studies

Internet shopping

Internet retail sales account for approximately three per cent of household spending in the UK (over £21.4bn a year in total), with around 62,000 UK businesses selling online to households. Forecasts suggest that the typical online shopper will spend over £860 a year on purchases of goods in 2010, compared with £560 in 2005.

To examine the possible implications of this boom for consumers, we launched a fact-finding study on internet shopping in April 2006. The study is exploring consumer confidence in this area and, in particular, whether changes to the regulatory regime are needed. We expect to report our findings in late spring 2007.

Evaluating the impact of market studies

Commercial use of public information

Improved competition in the supply of public sector information could benefit the economy by around £500m a year, we reported in December 2006.

Examples of public sector information include weather observations collected by the Met Office, family records held by The National Archives and mapping data collated by Ordnance Survey.

Our market study found that public sector information holders (PSIHs) are usually the only source for much of this information. Although some PSIHs make this available to businesses for free, others charge. A number also compete with businesses in turning the raw data into value-added products and services. This gives them an incentive to restrict access to information for which they are the sole provider.

The study recommended that PSIHs make as much public sector information as possible available for commercial use or re-use and, where they have a monopoly of supply, provide data to outside businesses on the same terms as to their own commercial operations. We also called for the Office of Public Sector Information to monitor PSIHs more closely, and for enforcement and complaints procedures to be strengthened.

Pharmaceutical Price Regulation Scheme

We recommended that the Pharmaceutical Price Regulation Scheme (PPRS) be reformed to deliver better value for money for the NHS and focus business investment on drugs that have the greatest benefits for patients.

The NHS spends about £8bn a year on branded prescription medicines. Our study, published in February 2007, identified a number of drugs whose prices are significantly out of line with patient benefits. These include treatments for cholesterol, blood pressure and stomach acid. In some cases drugs currently prescribed in large volumes are up to ten times more expensive than substitute treatments which deliver very similar benefits to patients.

The study concluded that the current 'profit cap and price cut' scheme, under which drugs companies are free to set their own prices within very broad profit constraints, should be replaced by a value-based pricing scheme which relates the price paid by the NHS to the therapeutic benefits that drugs bring to patients. We estimated that this reform could release in the region of £500m per year that could be used more effectively, giving patients better access to medicines and other treatments they may currently be denied.

Market studies and references are a relatively recent addition to the OFT's remit. In our 2006–07 annual plan, we undertook to gauge the effectiveness of our approach and its impact on markets and consumers. As a first step, we asked independent consultants to conduct a detailed assessment of a completed study – into new car warranties – to identify how, if at all, the market had changed as a result of our intervention, and whether we could have used our powers and resources to better effect.

Their findings, published in June 2006, were extremely positive. They estimated that private consumers had saved £30m over a two-year period as a direct result of our inquiry, while fleet operators had benefited to the tune of between £90m and £140m. This compared favourably with the £300,000 we spent on the market study itself and on follow-up activities, such as a consumer information campaign.

A document outlining our strategy for evaluating future market studies was published in September 2006. We also announced that our 2003 study of taxi services would be the next to undergo independent evaluation, and engaged an economic consultancy to undertake the work in 2007.

Progress on completed market studies

Pharmacies

Discussions continued with the Department of Health (DoH) on its review of entry restrictions for the community pharmacy market, which were the subject of an OFT report in 2003.

Under current regulations, a new community pharmacy can only be established if a Primary Care Trust judges that it is 'necessary or desirable' for a given neighbourhood.

In our talks with DoH officials, we reiterated our view that lifting these controls would improve competition and reduce the price for over-the-counter medicines, saving consumers around £25-30m a year.

Private dentistry

Private dental patients now have access to an independent complaints body under a scheme launched in May 2006 by the General Dental Council.

The lack of independent redress was one of the main issues highlighted in our 2003 report on the private dentistry market.

The new Dental Complaints Service provides mediation between the two parties in the event of a dispute. Where appropriate, it will recommend an apology, a refund of fees and/or a contribution by a dental practice towards the costs of remedial treatment. The service expects to deal with around 2,000-4,000 complaints a year from across the UK.

Estate agency market

The Consumers, Estate Agents and Redress Bill, introduced in Parliament in November 2006, implements a number of recommendations from our 2004 report on the estate agency market.

The Bill contains measures to require estate agents to join an approved redress scheme. It also requires them to keep adequate records of their dealings with a client for six years, and allows trading standards officers to inspect these records. Furthermore, the Bill expands the circumstances in which the OFT can take regulatory action against estate agents.

For more on our work in the estate agency market, see page 36.

Doorstep selling

In September 2006, the Government announced its response to a public consultation launched in the wake of our 2004 report on doorstep selling. The Government proposed extending cancellation rights and cooling-off periods to solicited visits, requiring cancellation notices to be provided within contracts, and encouraging greater transparency on prices through improved self-regulation. Measures to implement the first of these proposals were included in the Consumers, Estate Agents and Redress Bill (see above, and also page 37).

Remedies following CC investigations

We liaised with the CC on the development and implementation of its remedies from the following market investigations:

- store cards
- bulk liquefied petroleum gas (LPG) for domestic use
- classified directory advertising
- home credit.

Full details of these orders and undertakings are available from the CC website, www.competition-commission.org.uk.

Super-complaints

No super-complaints from designated consumer bodies were received during the reporting period.

Reviews of undertakings and orders

We are required to keep under review actions taken in compliance with CC remedies, and to advise the CC if these are having their intended effect.

Condoms

On our advice, the CC released condom supplier LRC Products from undertakings arising from a 1994 report by its predecessor, the Monopolies and Mergers Commission (MMC).

Our review found that the buyer power of retailers had increased significantly since the MMC report was published, leading to greater consumer choice and lower wholesale prices. These market changes meant that the original undertakings, under which LRC Products agreed not to enter into exclusive distribution agreements with wholesalers or retailers, were no longer needed.

Newspaper distribution

We launched a review of undertakings agreed by newspaper wholesalers in England and Wales, which include the Code of Practice for the Supply of Newspapers. The code was developed to remedy adverse effects identified in a 1993 MMC report.

Our review is considering whether the code, which supports the practice of publishers awarding exclusive territories to wholesalers, has proved effective or remains an appropriate remedy. It is also examining whether changes to the market require the undertakings to be varied or removed.

The review is being carried out in tandem with our analysis of the compatibility of newspaper and magazine distribution agreements with the Competition Act. A draft Opinion was published for consultation in May 2006 and a final Opinion will be published during the 2007–08 financial year.

In December 2006, we received a formal request to consider whether there are grounds to refer the market for the supply of newspapers and magazines in the UK to the CC for a market investigation. Our decision on this will follow the findings on the code and Opinion.

Opium derivatives

The Government published its response to our review of undertakings given by MacFarlan Smith Ltd (MSL) concerning the supply of opium derivatives used in painkillers and other medicines.

Our review had concluded that the present licensing policy, which seeks to protect UK production by limiting imports, allowed MSL, the UK's principal supplier, to discriminate on prices and earn high levels of profit, driving up costs for the NHS.

The Government expressed concern that increasing import quotas could threaten MSL's ability to supply diamorphine, an opioid analgesic used extensively in the UK for palliative care. However, it recognised the potential effects on customers and competition of the issues we had raised and committed to analyse these further.

Performance against KPIs

Key performance indicators

All market studies will meet the timetable stated at their launch.

Super-complaints are responded to within 90 days.

Revised guidance on the OFT's approach to market studies will be published by March 2007.

A monitoring function to identify key areas for studies, based on an assessment of consumer detriment and productivity impact, will be set up by autumn 2006.

An evaluation strategy and framework for market studies and references will be published by September 2006.

Our performance

Target met.

No super-complaints received during the reporting period.

Publication deferred due to OFT re-organisation and the need to reflect a common approach to project prioritisation across the OFT.

New function set up in November 2006.

Evaluation strategy for market studies published in September 2006.

Spending

During 2006–07, the OFT spent £4.5m on achieving this objective. This money was allocated as follows:

Staff costs	£3.5m
Administration	£1.0m

Communicating

Consumer education

Through our consumer education programme, we armed consumers with the knowledge and skills to make informed choices and get the best value from suppliers. We also informed and educated businesses to raise their awareness of their rights and responsibilities and to encourage them to comply with the law.

Consumer Education Alliance

We continued to lead the Consumer Education Alliance of public, private and voluntary-sector organisations.

During the year, the Alliance completed its research into the provision of consumer education in the UK. This has enabled the Alliance to pinpoint key target audiences for consumer education work and identify the most effective ways of reaching people.

The Alliance also worked to develop new consumer education resources for use by members in helping consumers acquire the skills they need to get a good deal from suppliers. For example, we began initial work on materials for Skills for Life, the Government's national strategy for improving adult literacy and numeracy.

These will be delivered through further education colleges.

The Alliance had 87 members at the end of the year after an Alliance conference in the autumn triggered an increase in membership. A third of new members came from Local Authority Trading Standards Services (TSS) and a quarter from the business community. Widening the membership base increases the expertise and potential delivery channels available to the Alliance.

Scams

As part of our battle against mass-marketed scams (see also page 32), we again ran a Scams Awareness Month. The campaign in February 2007 sought to help consumers avoid falling victim to the most common and harmful scams.

We sent a communications toolkit to professional consumer advisers across the UK, including more than 40 TSS. The toolkit included new consumer education DVDs, OFT research facts, booklets and posters. Materials were also produced in Welsh. This marked the start of our new policy of acting as a 'wholesaler' of consumer education by providing tools and guidance to organisations better placed to communicate directly with consumers.

We reinforced the key messages of Scams Awareness Month through radio and outdoor advertising, and by achieving a high profile for the campaign in the broadcast and print media. TSS were able to capitalise on our approach and add to the national message by targeting local media.

To inform the campaign, we drew on intelligence and case studies from the Consumer Direct database.

Business communication

Approved codes of practice

In March 2007, we ran a campaign to raise consumer awareness of our Consumer Codes Approval Scheme and the OFT Approved code logo (see page 26). We took out radio and outdoor advertisements and secured editorial coverage in print and broadcast media. We worked closely with code sponsors on this campaign.

Other education campaigns

Based on complaints data from the Consumer Direct telephone advice service, we ran a number of topical education campaigns. For example, at Christmas we advised shoppers to keep hold of their receipts in case they needed to return products, and following widespread storm damage across the UK in January 2007, we warned homeowners about rogue doorstep trades people offering repair services.

Young Consumers of the Year

In 2006, we once more supported the Trading Standards Institute's Young Consumers of the Year competition. Around 360 schools competed and were supported by 92 TSS. The competition gives young people the chance to develop consumer skills, knowledge and confidence.

We drive up compliance and improve trader behaviour by giving advice to businesses on the application of competition and consumer law. We do this mainly by publishing guidance, a strand of our work covered elsewhere in this report.

More generally, we seek to raise the awareness of small and medium-sized enterprises (SMEs) of their rights and responsibilities and of how the OFT can support them. This includes promoting the benefits of competition to SMEs, and encouraging them to report anti-competitive behaviour by suppliers, customers or competitors.

This year, we changed our approach to communicating with SMEs. We now focus on working with and providing resources to partner organisations, including trade associations and chambers of commerce, who already have established relationships with SMEs.

One such partner is HM Revenue & Customs (HMRC). During the year, we took part in 14 HMRC business advice open days. We received over 1,400 visitors to our stand where we talked to businesses about the laws we enforce and handed out publications.

In March 2007, we held our first Big Business Lunch. These events are aimed at gathering views from businesses on the OFT's present and future work and how we can meet the needs of both businesses and consumers.

Our regional roadshow programme finished in June 2006 with an event in East Sussex. This included a seminar for local businesses, as well as an exhibition stand for local shoppers to advise them on their rights and warn them about rogue traders and scams. Since 2002, we have conducted 34 roadshows across the UK.

We re-launched our website in February 2007. By the end of March, the number of people visiting the site had increased by 46 per cent.

Media relations

We made use of national, regional and trade media to publicise and explain our work. Media coverage, especially of our enforcement action, has an important deterrent role. It also helps inform and educate consumers.

In support of our major consumer publicity campaigns, we secured extensive coverage in national and regional media for Scams Awareness Month and for the OFT's Consumer

Codes Approval Scheme.

We re-launched our website in February 2007. The new site makes it easier for users to

Website

access information and provides content more closely tailored to their needs. For example, we added a new area of the site specifically for SMEs who want a broad understanding of their rights and responsibilities rather than a detailed guide to the law.

By the end of March 2007, the number of people visiting the site had increased by 46 per cent against a target of 10 per cent.

Performance against KPIs

Key performance indicators

Launch our new website by the end of 2006.
Raise the number of visitors to our website by 10 per cent by April 2007.
Support the Trading Standards Institute's Young Consumers of the Year competition.
Continue to coordinate our consumer education programme through our Alliance of public and private sector organisations, with the aim of avoiding duplication of effort and improving standards.
Increase the number of Alliance members from 66 to 125.
Exhibit at two minority community events.
Run two nationwide campaigns on OFT priorities on scams and credit.
Increase small and medium size businesses' awareness of competition law by five per cent from the baseline in 2005–06.
Ensure that at each roadshow every Local Authority Trading Standards Services is represented.
Working closely with Local Authority Trading Standards Services, Consumer Direct and other partners, collect feedback and advice to inform the content of our roadshow programme and ensure we highlight issues where there is a particular local interest. Continue to evaluate all roadshows and use the information to ensure future roadshows/events focus on the issues that business, enforcement partners and consumers want them to.

Our performance

Website launched in February 2007.
Visitor numbers up 46 per cent year-on-year at end March 2007.
Supported TSI's competition.
Continued to coordinate consumer education programme by leading Consumer Education Alliance.
Expanded membership of the Alliance to 87.
Target abandoned – evaluation concluded it would not be cost effective. Will look at alternative channels. More cost effective approach will lead to better minority consumer awareness.
Ran scams campaign in February 2007 to help consumers recognise and avoid scams. Credit campaign postponed – will be carried out under new approach under which we act as consumer education 'wholesaler'. Also, ran campaign on OFT Consumer Codes Approval Scheme in March 2007.
Decided not to measure awareness of competition law this year. With Competition Act 1998 nearly 10 years old, we shifted the emphasis of communication from awareness-raising to convincing businesses, especially SMEs, of the need to comply. Accomplished through, for example, presence at HMRC business advice open days and new SME section of website.
Target achieved – worked closely with TSS on the programme for each roadshow to ensure events addressed local issues and concerns.
Roadshow programme ended June 2006.
Because roadshow programme ended in June 2006, used feedback and advice on roadshows, and evaluation of them, to inform new SME communication strategy.

Spending

During 2006–07, the OFT spent £3.5m on achieving this objective. This money was allocated as follows:

Consumer Communications	£1.9m	Business Communications	£0.3m	Press office	£0.4m
Library	£0.5m	Other costs	£0.4m		

Influencing and liaison

Influencing government

We engaged with government policymakers to promote a pro-business, pro-consumer agenda in the public sector and liaised with a broad range of stakeholders to gather market intelligence and share best practice on competition and consumer issues.

Government can impact on markets in various ways, given the public sector's role as regulator, subsidiser, buyer and provider of services. Throughout the year we engaged with officials and policymakers to promote a pro-competition and pro-consumer agenda in the public sector. This involved three main activities:

- offering advice and guidance to government departments on policy issues, new legislation and on Regulatory Impact Assessments (RIAs)
- improving government understanding of how its actions can affect competition, through training sessions and the work of the Competition Forum
- responding to government consultations and proposals.

Advice and guidance

We provided advice on competition issues to a number of other government departments (OGDs) during 2006–07. Policy areas covered included defence procurement, the primary allocation of airport slots, ports policy, local authority management of children's services, personal pension accounts and the role of the new health and social care regulator. We also responded to a range of government consultations, including those on the Consumer Protection Cooperation Regulation, Ofcom's consumer protection policy and the Government Fraud Review.

Under the RIA process, government departments must conduct a competition assessment for all new policy proposals. During 2006–07 we provided comments and drafting advice on 22 RIAs, covering a range of issues from Home Information Packs to the implementation of the Gambling Act 2005.

To help improve the quality of RIAs, we gained agreement on a revised competition assessment filter – a series of questions which help policymakers assess the impact on competition of a new proposal. OGDs are currently piloting the new filter and we are consulting on the accompanying guideline. The main elements of the filter have also been adopted by the OECD's Competition Committee.

The Competition Forum, a cross-government body set up to raise awareness of competition issues, and its sub-group of economists met in May, July and October 2006 and February 2007. Topics discussed included competition and regulation, competitive neutrality and consumer behaviour in retail financial markets.

We took further steps to develop our relationships with key stakeholders across the UK and internationally. A central stakeholder team was established within the OFT's Executive Office in October 2006 to take forward a new, coordinated engagement strategy.

Engaging with stakeholders

In May 2006, we published a report on the effects of public procurement on competition in the municipal waste management sector. The result of a joint study with the Office of Government Commerce (OGC) and the Department for Environment, Food and Rural Affairs, *More Competition, Less Waste* made practical recommendations for reducing the use of landfill for disposing municipal waste in England through the development of more competitive markets.

In conjunction with the OGC, we also published in January 2007 a guide for public procurers of construction services, called *Making Competition Work For You*. The publication focuses on the different stages of the procurement process and highlights practical steps to take, mistakes to avoid and risks that can be mitigated in order to make competition work to achieve value for money. It also includes a section on how to avoid becoming the victim of bid-rigging or price-fixing cartels.

We took further steps to develop our relationships with key stakeholders across the UK and internationally. A central stakeholder team was established within the OFT's Executive Office in October 2006 to take forward a new, coordinated engagement strategy. This involves staff from all parts of the OFT in explaining our work to stakeholders, responding to their issues and concerns and developing common objectives.

To test this new approach, we set up a pilot group of stakeholder relationship managers for key organisations. We also developed a shared contacts database, including stakeholder profiles, to facilitate information-sharing across the OFT, and initiated a stakeholder engagement network across the office.

A newly designed stakeholder survey established a baseline measure of satisfaction, to be tracked over time. Initial results showed that over 85 per cent of stakeholders regarded contact with OFT as important for achieving their own goals and rated the OFT's professionalism and overall performance as either good or very good.

Among wider groups of consumers, the survey showed strong recognition of the OFT's role in promoting awareness of consumers' rights and ensuring fair business practice, but less clarity about our role in assessing large mergers. Over 70 per cent of consumers saw the

OFT as effective when it came to advising them of their rights and making sure businesses comply with the law. However, fewer agreed that consumers were protected through effective competition between businesses.

UK engagement

The OFT Chairman made several visits to the English regions, Wales and Scotland to promote our strategic partnership with Local Authority Trading Standards Services, which is now well established.

In Scotland, we opened a representational office as a base for our Scottish staff and those visiting from London. Our engagement with stakeholders in Scotland expanded to include the Regulatory Review Group and the Economists Network of the Scottish Executive, the Scottish Regulators Forum and the local authority Review Group on Regulatory Services. We continued to work closely with the Scottish Competition Law Forum, with members of the Scottish Consumer Forum and with committees of the Scottish Parliament.

International cooperation

We continued our high-level engagement with international bodies such as the European Commission, the International Competition Commission (ICN), the OECD, European Competition Authorities (ECA), the United Nations Conference on Trade and Development (UNCTAD) and the International Consumer Protection Enforcement Network (ICPEN).

As co-chair of an ICN subgroup, we were instrumental in developing an analytical framework for the competition assessment of mergers. This work culminated in the publication of an ICN Merger Guidelines Workbook – a practical guide to dealing with issues such as market definition and unilateral and coordinated effects – which was presented to the ICN’s annual conference in May 2006. We also played an active role in the ICN’s Unilateral Conduct Working Group, set up to examine the challenges involved in tackling anti-competitive unilateral conduct of dominant firms and to promote greater convergence of laws in this area.

We again provided high-level input to the work of the OECD’s Competition and Consumer Committees, for example contributing to the development of an OECD Competition Assessment Toolkit (the main elements of which were adopted from the OFT’s competition assessment filter – see page 63) and in discussions on private enforcement actions, abuse of dominance and energy security.

We worked with our counterparts in France and Portugal to develop a strategy for the future of the ECA, which was formed in 2001 to promote cooperation among competition authorities in the European Economic Area.

We were invited to be vice-chair of the 2006 conference of UNCTAD’s Intergovernmental Group of Experts on Competition in Geneva, where we also presented details of our recent work on the competition effects of public subsidies.

As a member of ICPEN, an international network of consumer protection agencies, we were involved in the planning of a worldwide Fraud Prevention Month (called Scams Awareness Month in the UK – see page 59), as well as contributing to working groups on mass-marketing fraud and best practice training. We also assisted in developing a new Memorandum of Establishment for the organisation and jointly led a working group looking at its future strategy.

OFT experts were invited to speak at a number of international conferences during the year, including the Canadian Bar Association meeting, the Seoul International Competition Forum, the Asian Competition Law and Policy Conference in Hong Kong and a conference on the link between competition and consumer policy hosted by the Polish Office of Competition and Consumer Protection. We provided technical assistance to authorities in South Africa, Hungary and the CARICOM countries, among others, and received over 40 overseas delegations.

Public enquiries

Our Enquiries Unit is the public’s main point of contact with the OFT and a key source of information and intelligence for our market studies and enforcement teams.

At the start of the year, we offered consumers the opportunity to speak to a consumer adviser from Consumer Direct as an option on our initial telephone menu. Approximately half of those telephoning the OFT’s general enquiries telephone number chose to do this. The unit itself handled 35,312 telephone calls, 13,908 emails and 3,520 letters in 2006–07.

In terms of call performance, we exceeded our targets for call answering (which averaged under nine seconds), length of call (which averaged under three minutes) and call abandonment (less than one per cent) for the year. In addition, we responded to 96 per cent of correspondence (including faxes and emails) within our target of 10 working days.

Payment systems

In light of its considerable record of achievement, we were able to recommend to the Chancellor of the Exchequer that the Payment Systems Task Force, which was chaired by the OFT, be wound up 18 months earlier than expected.

Having previously secured a landmark deal on faster clearing times for internet and telephone payments, the Task Force, which comprised representatives from across the banking industry, agreed UK-wide improvements to the cheque clearing scheme in 2006. These included recommendations that banks pay interest after two days, allow customers to withdraw money after four days

and provide certainty of 'fate' (i.e. that money would not be removed as a result of a cheque being dishonoured more than six days after it was paid in, unless the recipient was a knowing party to fraud). The banking industry also agreed to run campaigns to raise consumer awareness of cheque and electronic clearing.

A second working group recommended changes to the governance arrangements of LINK, the UK's leading ATM switching network, and urged LINK members and the Post Office to continue looking at ways to provide free cash withdrawals for consumers at Post Office counters.

Following a meeting in December 2006, the Task Force was formally dissolved. It was replaced by a new body, the United Kingdom Payments Council, which is concentrating on access, innovation and governance issues. This body consists of four independent directors and four directors nominated by the industry, under the independent chairmanship of Brian Pomeroy CBE. Its outputs and achievements against objectives will be reviewed by the OFT after two years.

Performance against KPIs

Key performance indicators

Payments Systems. We will publish:

- the second annual report of the Payment Systems Task Force by summer 2006
- the Cheques Working Group Report by summer 2006

Our performance

The Task Force published its second annual report in May 2006.

Publication of the Cheques Working Group report was delayed until October 2006.

Spending

During 2006–07, the OFT spent £1.4m on achieving this objective. This money was allocated as follows:

Staff costs	£1.1m
Administration	£0.3m

Managing our organisation

We managed our people and infrastructure to give us the capabilities we needed to achieve our aims. Our organisation restructure provided a framework for us to work more efficiently and effectively. We also invested in the development of our staff and our IT systems.

People

Restructure

From October 2006, we adopted a new organisation structure. The most significant change was to create multi-disciplinary groups focused on particular markets and projects rather than specific pieces of legislation. This has helped us to monitor whole markets more effectively, and deploy the right combination of tools – such as market studies and references, enforcement action, education and communication – to tackle problems.

The restructure also enabled us to measure the performance of the organisation and our staff more accurately, and gave managers greater responsibility and scope for supporting junior staff.

Learning and development

To help managers fulfil their new responsibilities for overseeing and supporting their teams, we launched a new leadership development programme. This was designed to help managers embed our new values throughout the organisation and to meet the requirements of the Professional Skills for Government programme. By the end of March 2007, around 200 managers had gone through this training.

During the year, we implemented a new performance planning and development review process. As a result, all staff got the chance to agree personal development plans with their line manager.

We also began work to identify the key competencies required of OFT staff in different roles. These are aligned to the OFT's values as well as the requirements of the Professional Skills for Government programme.

Culture

As part of our change programme, we drew up a new set of organisational values. These were developed with the input from a representative cross-section of staff. The values we aspire to as an organisation are:

- **Passion:** we make markets work well for consumers, with enthusiasm and conviction. We bring excitement, energy and life into our day-to-day work and encourage each other in achieving our goals
- **Trust:** we achieve more by being reliable, valuing risk-taking, sharing work and engaging openly and respectfully with each other. The OFT feels like a supportive family
- **Courage:** we have a greater impact on consumers by being bold, innovative and questioning. With the help of our colleagues, we do the right thing, rather than the easy thing, and we learn from our mistakes
- **Openness:** we break down barriers across the workplace and externally by being friendly, frank, transparent and inclusive.

Diversity of staff at 31 March 2007

Recruitment

During the year, we successfully recruited 53 new permanent staff. At 31 March 2007, the OFT had 649 permanent staff compared with 610 at the same point in 2006.

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. No candidates were recruited during the year under the arrangements for permitted exceptions to the code.

Diversity

We made considerable progress in promoting diversity.

All staff were issued with guidance on the importance of diversity and how they could support it, and were encouraged to set personal diversity-related objectives. We also launched a number of staff diversity networks for employees interested in diversity issues. Each network includes a senior manager who acts as a diversity champion.

During the year, we began work on an equality scheme that makes public our policies and practices for ensuring equal and fair treatment of our stakeholders, including consumers, businesses and our staff. The scheme sets out what we will do to fulfil our duties under gender, disability and race equality legislation, as well as how we will ensure equal treatment of stakeholders regardless of their religion, belief and sexual orientation – issues not currently covered by equality legislation.

	Women	From ethnic minorities	With disabilities
All staff	48.6%	23.6%¹	1.8%
Senior civil servants	24.3%	8.1% ²	0%
Senior managers	47.6%	9.5% ³	1.1%
Executive staff	48.5%	25.5% ⁴	2.2%
Clerical and support staff	58.9%	48.6% ⁵	2.8%

¹ 8.6% of staff did not state their ethnic background

² 13.5% of senior civil servants did not state their ethnic background

³ 4.2% of senior managers did not state their ethnic background

⁴ 10.2% of executive staff did not state their ethnic background

⁵ 4.7% of clerical and support staff did not state their ethnic background

Diversity of staff recruited during 2006–07

Women	41.5%
People from ethnic minorities	28.3% ¹
People with disabilities	2%

¹ 11.3% of recruits did not state their ethnic background

Infrastructure

We launched a public consultation on the scheme in March 2007.

In recognition of our achievements in promoting race equality, we received a bronze award in the 2006 Race for Opportunity benchmarking survey by the corporate responsibility charity Business in the Community.

Finally, we added questions to our annual staff survey to help us monitor employee diversity more closely and hear what employees think of our efforts to be inclusive.

Employee consultation

We are committed to informing and consulting with staff. We have continued to develop and improve our intranet as well as using e-mail and regular newsletters to ensure staff have access to a wide range of information, are kept abreast of developments, and are given the opportunity to comment. We also operate a Departmental Whitley Council on a regular basis throughout the year.

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.

Efficiency savings

We made efficiency savings of in 2006–07 of £2.5m (or five per cent) – in line with the target for the year. We achieved this primarily by reducing staff posts and by making savings on external contracts.

Resource allocation

As part of the restructuring of the OFT, we established a Prioritisation Committee of senior managers. The committee considers requests from around the organisation for further resources, evaluates them against the OFT's wider priorities and goals, and allocates resources accordingly.

IT systems

We completed a major upgrade of OFT-wide IT systems. As a result, all staff now use up-to-date systems, and we can offer mobile computing to help staff work efficiently when they are away from the office.

Project management

We began work to develop a new approach to project management to give staff a clear framework to manage projects and cases in an efficient and consistent way.

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 2006–07 the OFT paid 97 per cent of invoices within this time span. Payments are only made once they have been properly authorised under the terms of the OFT's scheme of financial delegation.

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 £48,000. The National Audit Office (NAO) also reported to Parliament on our competition enforcement work. The NAO received no remuneration from us for its non-audit work.

Our internal audit was provided independently by Chiene + Tait.

Our Accounting Officer has taken all steps to ensure he is aware of any relevant audit information and to ensure that the OFT's auditors are aware of that information. As far as the Accounting Officer is aware, there is no relevant internal audit information of which the OFT's auditors are unaware.

Environmental management

We have an active recycling programme, which covers items such as office paper and other stationery, cardboard, newspapers and magazines, glass, cans, plastic cups, toner cartridges and light tubes. We also seek to be energy efficient: we use time-controlled air conditioning and have sensor lighting in many parts of our office. Companies that supply our office products such as stationery and furniture are drawn from the Office of Government Commerce's approved list and as such must have proven environmental policies.

Support for the community

The OFT supports its staff in their voluntary and fundraising work. For example, during the year a group of OFT staff participated in a review of educational resources produced by the missdorothy.com charitable foundation, which aims to help children avoid becoming victims of child abuse, bullying and street crime. Staff have also cooperated on numerous fundraising initiatives for charities including Sightsavers, Centrepoint and Breakthrough Breast Cancer.

In addition, many of our consumer education initiatives include the provision of information resources for charities. For instance, as part of Scams Awareness Month in February 2007, we produced information packs for Age Concern and Citizens Advice.

Performance against KPIs

Key performance indicators

Work to retain our Investors in People designation.

Achieve efficiency savings of five per cent across the organisation by the end of March 2007.

Complete diversity toolkit by May 2006 and disability equality scheme by September 2006.

Our performance

Continued to invest in developing our people in line with liP requirements. Aim to apply for confirmation of liP status by December 2007.

Target achieved – made efficiency savings in 2006–07 of £2.5m (five per cent)

Work on diversity toolkit postponed to mid-2007 as resources devoted to OFT-wide change programme. Disability equality scheme now part of wider equality scheme, published for consultation in March 2007.

Spending

During 2006–07, the OFT spent £20.8m on achieving this objective. This money was allocated as follows:

Human resources	£1.6m	Learning and development	£0.8m
Finance	£1.0m	IT	£2.2m
Accommodation and office support	£8.2m		
Other/capital/one-off project costs	£7.0m		

Focus for the future

Much of our work in 2007–08 will be a continuation of work in progress. We have agreed new performance targets with the Treasury as part of our Comprehensive Spending Review settlement for 2008–11. Our Annual Plan for 2007–08, the final year of the current Comprehensive Spending Review period, therefore sets objectives which lay the foundation for meeting our future challenges, whilst ensuring that we continue to deliver real benefits for consumers and the economy. Our new targets differ from our previous

goals in that they focus much more on outcomes (for example changes in consumer, business and government behaviour) rather than outputs (for example the number of cases or studies we undertake). In addition they commit us to delivering measurable benefits to UK consumers of at least five times our annual budget. Our new targets and objectives are organised within four broad themes: delivering high-impact outcomes, being a centre of excellence and intelligence, working in partnership, and building our internal capability.

2007–08 objectives

To deliver high-impact outcomes

Our target is to deliver direct financial benefits of at least five times that of our cost to the taxpayer.

To be a centre of intelligence and excellence

Our target is to maintain or improve our rating as one of the top consumer and competition authorities in the world as measured by the DTI's 'peer review', the Global Competition Review and other appropriate and recognised measures.

To work in partnership

Our target is to demonstrate increased effectiveness of OFT work by engaging the strengths of other bodies and organisations, and by increasing mutual awareness and understanding.

To develop the OFT as an organisation

Our target is to have a comprehensive career and knowledge development programme for our people.

The full annual plan 2007–08 is available on our website: www.ofc.gov.uk

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 <http://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 2006–07 the committee comprised two independent members (Sir Geoffrey Owen and Rosalind Wright) 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 Trade and Industry. This information is subject to audit.

The salary and pension entitlements of the most senior managers of the Department during 2006–07 were as follows:

Officials	2006–07		2005–06	
	Salary	Benefits	Salary	Benefits
	£000	£000	£000	£000
Mr John Fingleton <i>Chief Executive Officer</i>	255-260	5-10	120-125 Full year equivalent 250-255	0-5
Mr Bart Smith <i>Chief Operating Officer</i>	125-130	–	110-115	–
Mrs Christine Wade <i>Director Consumer Regulation Enforcement Division from 1 April to 30 September 2006 Assistant Chief Executive, Consumer Advice and Trading Standards from 1 October 2006 to 31 March 2007</i>	100-105	–	90-95	–

Officials (continued)	2006–07		2005–06	
	Salary	Benefits	Salary	Benefits
	£000	£000	£000	£000
Mr Vincent Smith <i>Director Competition Enforcement Division from 1 April to 30 September 2006</i> <i>Senior Director for Competition from 1 October 2006 to 31 March 2007</i>	95-100	–	90-95	–
Mr Brian McHenry <i>Director Legal Division from 1 April to 30 September 2006</i> <i>General Counsel from 1 October 2006 to 31 March 2007</i>	105-110	–	105-110	–
Mr Jonathan May <i>Director Markets & Policy Initiatives Division from 1 April to 30 September 2006</i> <i>Executive Director, Policy and Strategy from 1 October 2006 to 31 March 2007</i>	110-115	–	95-100	–
Mr Mike Ricketts <i>Director Communications Division</i> <i>From 1 April to 31 July 2006</i>	30-35 Full year equivalent 75-80	–	80-85	–
Ms Sue Cook <i>Acting Director of Communications Division from 1 August 2006 to 31 March 2007</i>	40-45 Full year equivalent 60-65	–	–	–
Non Executive Board Members:				
Mr Allan Asher	15-20	–	15-20	–
Lord Norman Blackwell	15-20	–	15-20	–
Mr Philip Collins <i>Chairman</i>	160-165	5-10	75-80 Full year equivalent 155-160	0-5
Mrs Christine Farnish	0-5 Full year equivalent 15-20	–	15-20	–
Mr Richard Whish	15-20	–	15-20	–
Mrs Rosalind Wright	15-20	–	15-20	–

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

Mr Asher was appointed from 1 May 2003 until 31 March 2008.

Lord Blackwell was appointed from 1 April 2003 until 31 March 2008.

Mr Whish was appointed from 1 April 2003 until 31 March 2007 and reappointed at 1 April 2007.

Mrs Farnish stepped down on 19 July 2006.

Mrs Wright stepped down on 31 March 2007.

None of the Non-Executive Board Members received benefits in kind.

Salary

'Salary' includes gross salary; performance pay and bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. No employees, excluding Philip Collins and John Fingleton, received benefits in kind.

Benefits in kind

The Chairman and the Chief Executive Officer received benefits in kind during the year, which consisted of the use of the government car service.

Pensions

Officials

	Accrued pension at age 60 at 31-3-07 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31-3-07	CETV at 31-3-06	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	–
Mr John Fingleton <i>Chief Executive Officer</i>	0-5	0-2.5	30	10	20	–
Mr Bart Smith <i>Chief Operating Officer</i>	10-15	0-2.5	182	158	27	–
Mrs Christine Wade <i>Director Consumer Regulation Enforcement Division from 1 April to 30 September 2006</i>	40-45	0-2.5	744	706	14	–
<i>Assistant Chief Executive, Consumer Advice and Trading Standards from 1 October 2006 to 31 March 2007</i>						
Mr Vincent Smith <i>Director Competition Enforcement Division from 1 April to 30 September 2006</i>	15-20 plus lump sum of 25-30	0-2.5 plus lump sum of 0-2.5	215	197	16	–
Senior Director for Competition from 1 October 2006 to 31 March 2007						
Mr Brian McHenry <i>Director Legal Division from 1 April to 30 September 2006</i>	40-45 plus lump sum of 130-135	0-2.5 plus lump sum of 0-2.5	946	896	18	–
<i>General Counsel from 1 October 2006 to 31 March 2007</i>						
Mr Jonathan May <i>Director Markets & Policy Initiatives Division from 1 April to 30 September 2006</i>	45-50 plus lump sum of 145-150	7.5-10 plus lump sum of 27.5-30	1111	871	212	–
<i>Executive Director, Policy and Strategy from 1 October 2006 to 31 March 2007</i>						
Mr Mike Ricketts <i>Director Communications Division</i>	30-35 plus lump sum of 100-105	0-2.5 plus lump sum of 0-2.5	786	840	0	–
Ms Sue Cook <i>Acting Director of Communications Division from 1 August to 31 March 2007</i>	5-10 plus lump sum of 15-20	0-2.5 plus lump sum of 2.5-5	98	74	21	–

The Chairman is paid an amount in respect of a pension of 20 per cent of his basic salary. The following table describes the OFT's relevant pension contribution for 2006–07 and the prior years.

	06–07	05–06
Mr Philip Collins	N/A	35-40

Civil Service Pensions

The following pension details are provided in accordance with the 2006–07 Government Financial Reporting Manual and EPN Notice 141 served by the Cabinet Office.

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002, may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. 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).

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 2006 on the advice of the scheme Actuary. The CETV figure for 31 March 2006 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2007.

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

5 July 2007

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 the Accounting Officer's Memorandum, issued by the Treasury and published in Government Accounting.

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, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Board has overall responsibility for determining OFT's system of internal control and for reviewing its effectiveness, and annually approves and reviews the risk policy and strategy. The Audit Committee, a sub-committee of the Board, advises me on the adequacy of the audit arrangements and on assurances received in respect of risk management and internal control. The Executive Committee advises the Board and implements policies on risk management and internal control. Executive/Senior Directors ensure that the OFT's risk policy and strategy are implemented in their operational areas and they advise the Board in monthly and quarterly reports on an exception basis.

The purpose of the system of internal control

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 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.

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 2007 and up to the approval of the annual report and accounts accords with Treasury guidance.

Capacity to handle risk

In order to improve the Office's focus as a centre of excellence and intelligence, and to deliver high impact outcomes, during the year the OFT underwent a major reorganisation. This involved the creation of a new organisational structure, reporting lines, project management approach, decision making processes, delegations and control processes. This reorganisation became effective from 2 October 2006.

In addition, from 1 April 2006 the OFT became responsible for championing the work of the Local Authority Trading Standards Service, which operates through 203 local units. Also from 1 April 2006, we undertook responsibility for Consumer Direct, which has provided advice to nearly two million consumers through 11 contact centres located throughout Great Britain. It offers us new intelligence and insight into the nature and sources of consumer detriment.

In the light of all of these changes, at the request of the Executive Committee and Board our internal auditors, Chiene + Tait, undertook a full audit programme. This work revealed that the organisational changes had given rise to some new risks, and in addition, in certain areas controls required strengthening. Recommendations were made to OFT management to address these. Implementation of these is under way.

Chiene + Tait have also undertaken a review of the Office's risk policy, strategy and processes. The recommendations resulting from this review, which we are implementing in full, are 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 to manage them efficiently, effectively and economically. The revised system of risk management will be implemented from early 2007–08 and accords with Treasury guidance.

The risk and control framework

Risk is and has been managed in the OFT in the following way. At Board level, key corporate risks are kept under review, opportunities are identified and the adequacy of risk management controls is assessed. Responsibility for risk management is cascaded throughout the OFT, with managers and 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 main structures and processes that we have in place for identifying, evaluating, and managing risk are:

- The Board, which meets monthly to consider progress in and risks to, achieving the OFT's policies, aims and objectives;
- The Executive Committee ('ExCo') also meets weekly formally to consider progress in and risks to achieving the OFT's policies, aims and objectives; prior to 2 October 2006, this function was undertaken by the Operational Management Group;
- The Audit Committee, which is a sub-committee of the Board, comprising three independent members, a non-executive member of the board and an operational director, which meets four times a year;
- Monthly reports to the Board from Executive/Senior Directors, which identify the key risks affecting delivery of objectives and the actions taken to manage them;
- Quarterly assurances to the Board, and an annual assurance to the Accounting Officer, from operational directors on the system of internal control within their operating areas;
- Registers of corporate level risks, which are reviewed at least annually by the Board, and operational risks for each business objective which are reviewed at least annually by operational directors;
- Regular reports by internal audit (provided under contract by Chiene + Tait), to Government Internal Audit Standards, which includes the Head of Internal Audit's opinion on the adequacy and effectiveness of the OFT's system of internal control together with recommendations for improvement;
- From 2 October 2006 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 numerous sources, notably the work of the independent internal auditors Chiene + Tait, 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.

As referred to above, our internal auditors, Chiene + Tait, undertook a robust audit programme during the year. As an important part of our system of control, this uncovered a number of issues of concern. While the organisational changes experienced during the year in part contributed to this, a number of the weaknesses identified were of a longer standing nature.

In response, I have agreed with Chiene + Tait a detailed programme of remedial actions, a number of which are well progressed. To complement this, I have also introduced a more formal process for monitoring the implementation of internal audit recommendations which will be independently reviewed by the Audit Committee. I believe these changes will address fully the weaknesses identified.

Any system of internal control is subject to development and continuous improvement, and I believe the OFT's ongoing response to internal audit's recommendations has already made the organisation stronger. While Chiene + Tait have identified areas for improvement, I believe that our engaged and positive response to this, together with my assessment of the other areas of assurance supporting this statement, leads me to conclude that the OFT has a framework of risk management, governance and control which provides reasonable assurance regarding the effective achievement of the OFT's objectives.



John Fingleton

Chief Executive Officer and Accounting Officer of the OFT

5 July 2007

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

I certify that I have audited the financial statements of the Office of Fair Trading for the year ended 31 March 2007 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 Cashflow 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, certain information given in the Annual Report, which comprises Board and Senior Staff details and the Operating and Financial Review, Spending, Managing our organisation, and Focus for the future sections of the Management Commentary, 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. 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

Audit Opinion

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 HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows 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 HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises Board and Senior Staff details and the Operating and Financial Review, Spending, Managing our organisation, and Focus for the future sections of the Management Commentary, is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

July 2007

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

The maintenance and integrity of the OFT's website is the responsibility of the Accounting Officer. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Statement of Parliamentary Supply

Summary of Resource Outturn for the year ended 31 March 2007

	2006–2007						2005–2006	
	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)	77,883	–	77,883	74,526	–	74,526	3,357	54,831
Net cash requirement for the year ended 31 March 2007								
Net Cash Requirement (note 4)	–	–	77,691	–	–	73,706	3,985	53,912

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):

Note	2006–2007		2006–2007	
	Income	Forecast Receipts	Income	Outturn Receipts
	£000	£000	£000	£000
Total	5	–	42,218	<i>40,947</i>

Explanations of variances between Estimate and Outturn are given in the Management Commentary. The notes on pages 89 to 101 form part of these accounts.

Operating Cost Statement for the year ended 31 March 2007

		2006–2007	2005–2006
	Note	£000	£000
Administration Costs:			
<i>Request for Resources 1</i>			
Staff Costs	9	34,302	32,159
Other Administration Costs	10	38,206	21,217
Operating Income	12	(42,217)	(18,693)
Programme Costs			
<i>Request for Resources 1</i>			
Expenditure	11	2,018	1,469
Net Operating Cost	3	32,309	36,152

Statement of Recognised Gains and Losses for the year ended 31 March 2007

		2006–2007	2005–2006
		£000	£000
Net (loss)/gain on revaluation of tangible fixed assets		(146)	532
Net loss on revaluation of intangible fixed assets	14	(26)	(10)
Overnight Increase in pension liabilities	18	–	(99)
Actuarial loss	18	(229)	(24)
Receipt of donated assets	20(b)	2	26
Total (loss)/gain since last financial statements		(399)	425

All income and expenditure are derived from continuing operations.

The notes on pages 89 to 101 form part of these accounts.

Balance Sheet

as at 31 March 2007

		as at 31 March 2007		as at 31 March 2006	
	Note	£000	£000	£000	£000
Fixed assets:					
Tangible assets	13		7,792		7,369
Intangible assets	14		256		285
Current assets:					
Debtors	15	5,288		3,122	
Cash at bank and in hand	16	1,629		1,608	
		<u>6,917</u>		<u>4,730</u>	
Creditors (due within one year)	17	(9,541)		(5,766)	
Net current liabilities			<u>(2,624)</u>		<u>(1,036)</u>
Total assets less current liabilities			5,424		6,618
Provisions for Liabilities and Charges	18	(3,710)		(3,959)	
			<u>(3,710)</u>		<u>(3,959)</u>
Total Assets less Total Liabilities before Pension Liabilities			1,714		2,659
Pension Liabilities	18	(1,510)		(1,291)	
			<u>(1,510)</u>		<u>(1,291)</u>
Total Assets less Total Liabilities after Pension Liabilities			<u>204</u>		<u>1,368</u>
Taxpayers' Equity					
General Fund	19		(790)		162
Revaluation reserve	20		975		1,181
Donated asset reserve	20		19		25
			<u>204</u>		<u>1,368</u>

The notes on pages 89 to 101 form part of these accounts.

John Fingleton
Chief Executive Officer and Accounting Officer

5 July 2007

Cash Flow Statement for the year ended 31 March 2007

		2006–2007	2005–2006
	Note	£000	£000
Net cash outflow from operating activities	21(a)	(30,318)	(33,321)
Capital expenditure and financial investment	21(b)	(2,443)	(1,840)
Receipts due to the Consolidated Fund which are outside the scope of OFT's activities	8	(1)	(15)
Payments of amounts due to the Consolidated Fund		(41,082)	(18,737)
Financing	21(c)	73,865	52,810
Increase/(Decrease) in cash in the year	21(d)	21	(1,103)

The notes on pages 89 to 101 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives for the year ended 31 March 2007

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

Objective	2006–2007			2005–2006		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Self Regulation	1,366	–	1,366	2,478	–	2,478
Consumer protection and enforcement and Consumer Direct	28,283	(5,795)	22,488	10,691	(5,293)	5,398
Competition enforcement	12,328	(33,632)	(21,304)	12,180	(11,756)	424
Merger control	2,341	(2,790)	(449)	2,070	(1,630)	440
Market studies	4,538	–	4,538	4,070	–	4,070
Communications	3,459	–	3,459	3,837	–	3,837
Shaping policy and working with OGD's	1,426	–	1,426	1,561	–	1,561
Operations	20,785	–	20,785	17,958	(14)	17,944
RfR Total	74,526	(42,217)	32,309	54,845	(18,693)	36,152

Our methodology for preparing this Statement is set out in accounting policy note 1.15.

The 2005–06 figures have been restated to allow for comparison with this year's figures which reflect the new organisational structure of OFT.

The notes on pages 89 to 101 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 2006–07 *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 modified to include the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. 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 revalued to current value each year. Leasehold Improvements are revalued 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 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 revalued to current value each year.

1.6 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.

1.7 Operating income

Operating income is income which relates directly to the operating activities of the department. It principally comprises of 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 of Trade and Industry. 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 main 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.

1.8 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 costs. The classification of expenditure and income as administration or programme follows the definition of administration costs set by HM Treasury.

1.9 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.

1.10 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.

1.11 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.

1.12 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.

1.13 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 £250,000 (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.

1.14 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.

1.15 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 to objectives via a two stage process. Stage one allocates direct costs incurred under each objective. Stage two apportions the costs of support services to objectives as a percent

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.

1.16 Operating leases

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

1.17 Comparative amounts

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

1.18 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 25.

2. Analysis of net resource outturn

	2006–2007					2005–2006		
	Admin	Other current	Gross resource expenditure	A-in-A	Net Total	Estimate	Net total Outturn compared to Estimate	Prior-year Outturn
	£000	£000	£000		£000	£000	£000	£000
Resource Outturn	72,508	2,018	74,526	–	74,526	77,883	(3,357)	54,831

The OFT has only one Request for Resources for control purposes and parliamentary approval. Consequently, it is the same as the resource outturn. (For analysis of A-in-A, see note 5)

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

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

	Note	2006–2007 £000	2005–2006 £000
Net Resource Outturn	2	74,526	54,831
Non-supply income (CFER)	5	(42,217)	(18,679)
Net operating cost		32,309	36,152

3(b) Outturn against final Administration Budget

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

	2006–2007		2005–2006	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Total Resources	72,508	75,833	53,376	54,699

4. Reconciliation of resources to cash requirement

	Note	Net total Outturn compared with estimate saving/ (excess)		
		Estimate	Net Total Outturn	Net estimate saving/ (excess)
		£000	£000	£000
Resource Outturn	2	77,883	74,526	3,357
Capital:				
Acquisition of fixed assets	13,14	2,698	2,444	254
Investments	1.6	–	–	–
Non-operating A-in-A				
Proceeds of fixed asset disposals		–	–	–
Accruals adjustments:				
Non-cash items	10,11	(2,985)	(2,184)	(801)
Changes in working capital other than cash		–	(1,588)	1,588
Changes in creditors falling due after more than one year				
Use of provision	18	95	508	(413)
Net Cash Requirement		77,691	73,706	3,985

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 2006–2007		Outturn 2006–2007	
		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				42,217	40,946
				<hr/>	<hr/>
Non-operating income and receipts – excess A in A	19			42,217	40,946
Other non-operating income and receipts not classified as A-in-A	7	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund	8	–	–	1	1
		–	–	–	–
Total income payable to the Consolidated Fund				<hr/>	<hr/>
				42,218	40,947

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

	Note	2006–2007 £000	2005–2006 £000
Operating income	12	42,217	18,693
Adjustments for transactions between RfRs		–	–
Gross income		42,217	18,693
Income authorised to be appropriated-in-aid			(14)
Operating income payable to the Consolidated Fund	5	<hr/>	<hr/>
		42,217	18,679

7. Non-operating income – Excess A in A

	2006–2007 £000	2005–2006 £000
Non-operating income – Excess A in A	<hr/>	<hr/>
	–	–

8. Non-operating income not classified as A in A

	Income £000	Receipts £000
Receipts from the disposal of fixed assets	<hr/>	<hr/>
	1	1

9. Staff related costs and staff numbers

Staff costs comprise:

	2006–2007			2005–2006
	Total £000	Permanently employed staff £000	Others £000	Total £000
Wages and Salaries	27,200	24,586	2,614	25,392
Social security costs	2,204	2,204	–	2,114
Pension costs	5,001	5,001	–	4,759
Pension of retired members (non-cash as per FRS 17)				20
Sub total	<hr/>	<hr/>	<hr/>	<hr/>
	34,405	31,791	2,614	32,285
Less recoveries in respect of outward secondments	(103)	(103)		(126)
Total net costs*	<hr/>	<hr/>	<hr/>	<hr/>
	34,302	31,688	2,614	32,159

* 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, but the OFT is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-2007, employer contributions of £4,835,845 were payable to the PCSPS (2005–06 £4,536,275) 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 (2005–06 £48,002) 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 (2005–06 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 (2005–06 £4,677, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Included in pension costs is £165,518 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.

Average number of persons employed

The average number of whole-time equivalent persons employed (including senior management) during the first 6 months of the year (1 April 2006 to 30 September 2006) was as follows:

	April 2006 – September 2006			2005–2006 Total
	Total	Permanent staff	Others	
Competition Enforcement	228	219	9	232
Consumer Direct	23	23	–	
Consumer Regulation Enforcement	266	253	13	294
Markets & Policy Initiatives	125	112	13	122
Communications	45	38	7	48
Total	687	645	42	696

Staff figures are calculated by a two stage process. Firstly by the number of staff directly involved in achieving the operational divisions objective and secondly by allocating support division staff numbers proportionally to operating divisions.

The average number of whole-time equivalent persons employed (including senior management) as at 31 March 2007 were as follows:

	at 31 March 2007		
	Total	Permanent staff	Others
Markets & Projects	377	334	43
Communications	35	31	4
Policy & Strategy	122	115	7
Executive Office	21	18	3
Consumer Advice & Trading Standards	46	37	9
Operations	82	65	17
Total	683	600	83

The above staff figures are calculated on the areas within the business and have been separately identified to reflect the restructure which the organisation underwent during the year. Therefore, there is no longer a requirement to allocate support division staff members proportionally to operation divisions.

10. Other Administration Costs

	2006-2007		2005-2006	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machines	146		85	
Other operating leases	4,306		4,367	
		4,452		4,452
Research expenditure		671		295
Non-cash items:				
Depreciation of fixed assets				
Tangible fixed assets	1,709		1,129	
Intangible fixed assets	136		38	
Released from the donated asset reserve	(8)		(4)	
Loss on disposal of fixed assets	–		(11)	
Cost of capital charge	16		22	
Auditor's remuneration and expenses	48		50	
Devaluation of Fixed Assets	34		949	
Provision: Amounts provided for in year	116		555	
Restructuring costs	–		650	
Amounts not required written back	–		(211)	
Unwinding of discount on provisions	133		155	
Total Non-Cash Costs		2,184		3,322
Other expenditure				
Consumer Direct Contact Centre	11,862		–	
Rates	1,008		1,207	
Consultancies	3,553		2,445	
Training	1,133		892	
Publicity and campaigns	3,072		2,294	
Maintenance	3,243		1,766	
Travel & subsistence	680		438	
Telecoms	685		469	
Events	304		543	
Publications	395		296	
Recruitment	2,130		493	
Other expenditure	2,834		2,305	
Total other expenditure		30,899		13,148
		38,206		21,217

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

Included in the above Other Expenditure Costs is £1.3m of cost relating to the organisation's restructure during the year (Beagle project).

11. Programme Costs

	2006-2007		2005-2006	
	£000	£000	£000	£000
Non-cash items:				
Provision: Amounts provided for in year		–		–
Provision: Amounts not required written back		–		(910)
Other expenditure		2,018		2,379
Total programme expenditure		2,018		1,469

Total programme expenditure of £2,018,000 (2005-2006 £2,252,000) comprises litigation costs of £2,018,000 (2005-2006 £1,486,000) and expert witnesses costs of nil (2005-2006 £1,000).

Reconciliation of non-cash costs

	Note		
Staff costs	9	–	20
Non-staff administration costs	10	2,184	3,322
Programme Costs	11	–	(910)
		2,184	2,432

12. Income

	2006–2007	2005–2006
	£000	£000
Fees for the administration of the Consumer Credit Act 1974	5,795	5,293
Fees charged for mergers under the Fair Trading Act 1973 and Enterprise Act 2002	2,790	1,630
Penalties imposed under the Competition Act 1998	33,478	11,123
Appeal costs reimbursed	154	633
A-in-A	–	14
	<u>42,217</u>	<u>18,693</u>

13. Tangible Fixed assets

	Information Technology	Building Improvements	Furniture and Fittings	Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2006	12,293	3,115	2,389	1,454	19,251
Additions	266	–	133	1,912	2,311
Donations	2	–	–	–	2
Disposals	–	–	(38)	–	(38)
Revaluation	–	59	46	–	105
Devaluation	(396)	–	–	–	(396)
At 31 March 2007	12,165	3,174	2,530	3,366	21,235
Depreciation					
At 1 April 2006	8,717	2,032	1,133	–	11,882
Charged in year	1,054	398	257	–	1,709
Disposals	–	–	(37)	–	(37)
Revaluation/(Devaluation)	(171)	40	20	–	(111)
At 31 March 2007	9,600	2,470	1,373	–	13,443
Net book value at 31 March 2007	2,565	704	1,157	3,366	7,792
Net book value at 31 March 2006	3,576	1,083	1,256	1,454	7,369

14. Intangible Fixed Assets

	Software Licences	Total
	£000	£000
Cost or valuation		
At 1 April 2006	694	694
Additions	133	133
Revaluation	–	–
Devaluation	(49)	(49)
At 31 March 2007	778	778
Depreciation		
At 1 April 2006	409	409
Charged in year	136	136
Revaluation/(Devaluation)	(23)	(23)
At 31 March 2007	522	522
Net book value at 31 March 2007	256	256
Net book value at 31 March 2006	285	285

15. Debtors**15(a) Analysis by type**

	<u>2006-2007</u>	<u>2005-2006</u>
	£000	£000
Amounts falling due within one year:		
Trade debtors	5	206
Deposits and advances	142	137
Other debtors	45	80
Value Added Tax	1,621	918
Prepayments and accrued income	3,475	1,781
Total debtors	<u>5,288</u>	<u>3,122</u>

Included within accrued income is £1,140,000 (2005-06: £65,000) that will be due to the Consolidated Fund once the debts are collected.

15(b) Intra-Government Balances

	<u>2006-2007</u>	<u>2005-2006</u>
	£000	£000
Amounts falling due within one year:		
Balances with other central government bodies	1,633	1,043
Balances with local authorities	1,285	-
Balances with NHS Trusts	-	-
Balances with public corporations and trading funds	-	34
Subtotal: intra-government balances	<u>2,918</u>	<u>1,077</u>
Balances with bodies external to government	<u>2,370</u>	<u>2,045</u>
Total debtors at 31 March 2007	<u>5,288</u>	<u>3,122</u>

16. Cash at bank and in hand

		<u>2006-2007</u>	<u>2005-2006</u>
	Note	£000	£000
Balance at 1 April		1,608	2,711
Net change in cash balances		21	(1,103)
Balance at 31 March		<u>1,629</u>	<u>1,608</u>
The following balances at 31 March were held at:			
Office of HM Paymaster General		1,355	1,583
Commercial banks and cash in hand		<u>274</u>	<u>25</u>
Balance at 31 March		<u>1,629</u>	<u>1,608</u>
The balance at 31 March comprises:			
Amounts issued from the Consolidated Fund for supply but not spent at year end	17	494	335
Consolidated Fund extra receipts received and deferred	29	300	498
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	17	<u>835</u>	<u>775</u>
		<u>1,629</u>	<u>1,608</u>

17. Creditors

17(a) Analysis by type

	2006–2007		2005–2006	
	£000		£000	
Amounts falling due within one year:				
Trade creditors		795		1,613
Other creditors		1,229		1,164
Accruals and deferred income		5,048		1,814
Amounts issued from/(due to) the consolidated fund for supply but not spent at the year end		494		335
Consolidated Fund extra receipts due to be paid to the Consolidated Fund received	835		775	
receivable	1,140	1,975	65	840
		9,541		5,766

Included within accruals and deferred income is £300,374 of deferred income which relates to amounts received for surrender to the Consolidated Fund (2005–06 £497,555).

17(b) Intra-Government Balances

	2006–2007		2005–2006	
	£000		£000	
Amounts falling due within one year:				
Balances with other central government bodies		3,301		1,280
Balances with local authorities		1,723		3
Balances with NHS Trusts		–		–
Balances with public corporations and trading funds		296		304
Subtotal: intra-government balances		5,320		1,587
Balances with bodies external to government		4,221		4,179
Total creditors at 31 March 2007		9,541		5,766

18. Provisions for liabilities and charges

	Early Retirement Commitments	Building Refurbishment Provision	Other Provisions	Total
	£000	£000	£000	£000
Balance at 1 April 2006	497	2,802	660	3,959
Provided in year	48	–	–	48
Provisions not required written back	–	–	–	–
Provisions utilised in the year	(124)	–	(306)	(430)
Unwinding of discount	–	133	–	133
Balance at 31 March 2007	421	2,935	354	3,710
Expected timing of cash flows				
Less than one year	81	–	354	435
Between one and five years	226	2,935	–	3,161
After 5 years	114	–	–	114
	421	2,935	354	3,710

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 were four new early retirees during the year (2005–06: Two).

b) The building refurbishment provision relates to end of lease liabilities for Fleetbank House. The lease is due to expire in 2009. This provision has been discounted at the Treasury rate of 2.2% (2005–06: 2.2%).

c) Included within other provisions is nil (2005–06: £10,000) 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. £354,000 relates to a provision in respect of the closure of Craven House.

d) Pension provisions for the year ending 31 March 2007 are:

	Total
	£000
Balance at 1 April 2006	1,291
Provided in year	297
Provisions utilised in the year	(78)
Balance at 31 March 2007	1,510
Expected timing of cash flows	
Less than one year	80
Between one and five years	319
After five years	1,111
	1,510

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 2007.

The financial assumptions used in the calculation of the liability as at 31 March 2007 are as follows:

- The gross rate of increase in salaries of 4.3% p.a. (2005-06: 4.0% p.a.)
- The gross rate used to discount scheme liabilities is 4.60% p.a. (2005-06: 5.40% p.a.)
- The gross rate of increase for pensions in payment and deferred pensions is 2.75% p.a. (2005-06: 2.5% p.a.)
- In nominal terms, these assumptions imply price inflation of 2.75% p.a. (2005-06: 2.5% 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	229
- Benefits Paid	297
	(78)
Increase in provision	219

19. 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.

	2006-2007		2005-2006	
	£000		£000	
Balance at 1 April		162		1,126
Net Parliamentary Funding				
Drawn Down	73,865		52,810	
Deemed	335	74,200	1,438	54,248
Year end adjustment				
Supply Creditor - current year		(494)		(335)
Net Transfer from Operating Activities				
Net Operating Cost	(32,309)		(36,152)	
CFER repayable to Consolidated Fund	(42,217)	(74,526)	(18,679)	(54,831)
Non operating income surrenderable to the Consolidated Fund		(1)		(10)
Non-cash charges:				
Cost of capital	16		22	
Auditors remuneration	48	64	50	72
Transfer from revaluation reserve (note 20(a))		34		15
Actuarial Loss		(229)		(24)
Overnight increase in pension liabilities		-		(99)
General Fund at 31 March		(790)		162

20. Reserves

20(a) Revaluation Reserve

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

	<u>2006–2007</u>	<u>2005–2006</u>
	£000	£000
Balance at 1 April	1,181	674
Arising on revaluation during the year (net)	(172)	522
Transferred to General Fund in respect of realised element of revaluation reserve	(34)	(15)
Balance at 31 March	<u>975</u>	<u>1,181</u>

20(b) Donated Asset Reserve

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

	Donated Asset Reserve	
	<u>2006–2007</u>	<u>2005–2006</u>
	£000	£000
Balance at 1 April	25	8
Additions during the year	2	26
Devaluation	–	(5)
Release to the Operating Cost statement	(8)	(4)
Balance at 31 March	<u>19</u>	<u>25</u>

21. Notes to the Cash Flow Statement

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

	<u>2006–2007</u>	<u>2005–2006</u>
	£000	£000
Net operating cost	32,309	36,152
Adjust for non-cash transactions	(2,184)	(2,432)
Increase/(Decrease) in Debtors	2,166	146
less movement in debtors relating to items not passing through the OCS	–	–
(Increase)/Decrease in Creditors	(3,775)	159
less movement in creditors relating to items not passing through the OCS	1,294	(1,159)
Use of provisions	508	455
Net cash outflow from operating activities	<u>30,318</u>	<u>33,321</u>

21(b) Analysis of capital expenditure and financial investment

Tangible fixed assets additions	2,311	1,721
Intangible fixed assets additions	133	134
Proceeds of disposal of fixed assets	(1)	(15)
Net cash outflow from investing activities	<u>2,443</u>	<u>1,840</u>

21(c) Analysis of financing

From the Consolidated Fund (Supply) – current year	73,865	52,810
Net financing	<u>73,865</u>	<u>52,810</u>

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

Net cash requirement	73,706	53,912
From the Consolidated Fund (Supply) – current year	(73,865)	(52,810)
Amounts due to the Consolidated Fund – received in a prior year and paid over	1,272	1,273
Amounts due to the Consolidated Fund received and not paid over	(1,134)	(1,272)
Decrease/(Increase) in cash in the period	<u>(21)</u>	<u>1,103</u>

22. Capital commitments

	<u>2006–2007</u>	<u>2005–2006</u>
	£000	£000
Contracted capital commitments at 31 March 2007 for which no provision has been made	–	–

23 Commitments under operating leases

	<u>2006–2007</u>		<u>2005–2006</u>	
	Land and Buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
At 31 March 2007 the department was committed to making the following payments during the next year in respect of operating leases expiring:				
Within one year	–	75	–	56
Between two and five years	4,136	9	4,367	22
After five years	4,136	84	4,367	78

24. Other commitments

The department has no non-cancellable contracts (which are not operating leases) as at 31 March 2007 (2005–06 None).

25. 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 2007 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 2007 of £1,629,184. 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 2007 was as follows:

	<u>£000</u>
In one year or less or on demand	515
In more than one year but not more than two years	161
In more than two year but not more than five years	3,319
In more than five years	1,225
	<u>5,220</u>

26. 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 within the UK, are collected by the OFT and passed to the Consolidated Fund as Consolidated Fund Extra Receipts.

A contingent liability exists in respect of Value Added Tax reclaimed in 2006-2007 and in prior years, which may have been incorrectly recovered by the OFT. There is uncertainty about the level of the overclaim, as well as the possibility of any associated interest and penalties. In consequence, it has been determined that a contingent liability rather than a provision is the more appropriate accounting treatment. OFT is confident that the matter will be resolved in the coming year.

27. 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.

28. 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.

29. Deferred Income

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

	<u>2006-2007</u>	<u>2005-2006</u>
	£000	£000
Fees for administration of the Consumer Credit Act 1974	225	453
Fees for mergers under Fair Trading Act 1973	75	45
Fees payable to the Consolidated Fund	300	498

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

30. Post Balance Sheet Events

There were no reportable post balance sheet events between the balance sheet date and 20th of July 2007, the date when the Accounting Officer dispatched the accounts to HM Treasury. The financial accounts do not reflect events after this date.

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