

Office of Fair Trading Annual Plan 2011-12

OFT1294

Presented to Parliament pursuant to section 3(3) of the Enterprise Act 2002

© **Crown copyright 2011**

You may reuse this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/ or write to the Information Policy Team, The National Archives, Kew, Richmond, Surrey, TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk

Any enquiries regarding this publication should be sent to us at: Marketing, Office of Fair Trading, Fleetbank House, 2-6 Salisbury Square, London EC4Y 8JX, or email: marketing@oft.gsi.gov.uk

This publication is also available from our website at: www.oft.gov.uk

CONTENTS

	<i>Page</i>
Chairman's introduction	4
1 About the OFT	7
2 Future changes to the competition and consumer regime	13
3 Key themes for 2011-12	14
4 Sector and thematic focus	18
5 Spending review 2010 (SR10)	22

CHAIRMAN'S INTRODUCTION

The forthcoming year brings a wide range of challenges and opportunities for the OFT. As the focus on growth and recovery makes the competition and consumer regime ever more relevant and important, it will be vital for the OFT to continue to focus on its mission of making markets work well for consumers and the wider economy.

The UK economy remains in a difficult period as the Government works to tackle the budget deficit. The Government has made a return to sustainable growth a key priority, with opening up markets for public services an important element of policy agendas around growth, localism and the 'Big Society'. The pace of change in the economy continues, with new technology leading to new business models and sales channels, and online commerce continuing to grow.

Against this background, the OFT has continued to deliver important contributions in vital areas for the economy. The last few months have seen some key pieces of work that have changed behaviour across markets, clarified the law for consumers and for business, and focused strongly on strategically important areas for growth. For example:

- We concluded an early resolution agreement with Reckitt Benckiser, in which they admitted infringing UK and European competition law and agreed to pay a penalty of £10.2m.
- We have taken action of the strongest possible kind to protect consumers, including securing a landmark judgment that a number of prize draw promotions are unlawful.
- Our innovative work on advertising of prices has helped to develop our understanding of how consumers are affected by misleading pricing practices and is already informing our enforcement work.
- We are working with Government to improve competition in public-sector markets by conducting research on cross-cutting issues in this area, such as our recent study on commissioning and competition.
- We have carried out a wide range of work across retail financial markets, using a range of tools. Banks have introduced greater transparency in the pricing of personal current accounts and made improvements to the switching process, and we expect to see further improvements in the coming year, especially around unarranged overdrafts.
- We undertook a stock-take of the UK's economic infrastructure, a

key foundation for strong economic growth and an area where more than £200bn is expected to be invested in the next five years, mapping out ownership and control and looking at how outcomes for consumers are affected by ownership structures in these markets.

Our spending review settlement (SR10) will reduce our budget by 25 per cent in real terms phased over four years, of which 2011-12 will be the first year. This will again see us needing to do more with less, a challenge we met consistently throughout the previous spending round. We will achieve this through a combination of structural, cultural and behavioural change, increased efficiency in our frontline activities coupled with a radical overhaul of our back office functions.

We will concentrate in 2011-12 on two key themes – high impact enforcement work that delivers the maximum compliance with competition and consumer law, and engaging with businesses, consumers and Government to ensure that the benefits of strong competition and consumer protection are fully realised. In both areas we will focus on issues that are important for growth in the economy, and for the quality of life of consumers, including vulnerable consumers. We will also maintain successful initiatives such as our work to improve business compliance, and continue to

introduce innovations such as trialing a Procedural Adjudicator role in Competition Act cases.

Key strategic areas for OFT in the next year will include those in public services, economic infrastructure, high innovation sectors and online commerce, as well as those involving new business models, affecting vulnerable consumers, and affected most by commodity price rises. We will continue with existing work in financial services,¹ but having undertaken considerable work in this area we now consider it timely to rebalance our portfolio of new work towards other areas that are strategically important to growth - not least public markets.

In March 2011 the Government published a consultation on reform of the competition regime, which will be followed by a consultation on reform of the consumer regime. The OFT will work with it to help ensure that this reform meets its aims and builds on the successful features of the existing system. Whilst the current competition and consumer regime is already regarded as world class, we agree with the Government that there is still room for further improvement, and, while

¹ For example, we continue to monitor developments in the PCA market and are contributing to ongoing debates around the future of retail banking such as the work of the Independent Banking Commission and the Treasury Select Committee.

redesigning the regime will inevitably present significant challenges, reform will bring opportunities for some real and important gains for the UK. For example, a move to a single competition and markets authority (CMA) could make for a much more streamlined regime and better use of the finite resources available, with more consistency in policy and approach and accordingly reduced burdens on business.

We also believe that it is essential for the CMA to be able to exercise a full range of both competition and consumer protection powers, so that it can take appropriate and proportionate action against the most harmful conduct while minimising unnecessary burdens on businesses.

Whilst much is likely to change in and around OFT over the course of 2011-12 we will continue to effectively deliver across all of our functions. We will also need to be ready to adapt to these shifting circumstances whilst retaining the focus and commitment to better outcomes for consumers that has been the key foundation for our successes in the past. We look forward to meeting these challenges.

This Annual Plan has been informed by the many helpful and constructive points raised by respondents to the consultation on our proposed priorities, and we are grateful to those individuals and organisations for their input.

1 ABOUT THE OFT

The OFT is the UK's primary competition and consumer agency. **Our mission is to make markets work well for consumers.** Our work enables competitive markets to deliver the incentives for greater business efficiency, and to ensure that firms are responsive to consumer demands. Our goal is competitive, efficient, innovative markets where standards of customer care are high, consumers are empowered and confident about making choices and where businesses comply with consumer and competition laws but are not overburdened by regulation.

Effective competition and well-functioning markets drive the long term productivity growth vital for economic recovery without adding costs to Government or business.

Our approach

Good consumer outcomes rely on competitive markets providing choice and value, whilst vibrant competition relies on consumers shopping with confidence. Our dual competition and consumer remit allows us to take a holistic approach to our work and the wide range of remedies at our disposal allows us to act in a flexible and proportionate manner.

The majority of our work consists of:

- Enforcing competition and consumer law.
- Analysing markets.

- Merger control.
- Licensing and supervisory work in the consumer credit and estate agency markets, including anti-money laundering supervision.
- Advocacy.
- Working with partners to deliver information and education programmes to businesses and consumers.
- Delivering advice to consumers through Consumer Direct.

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

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

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

Commission, other regulators, compliance partners, consumer organisations and international counterparts to ensure effective competition and consumer regimes.

Our tools in detail

Enforcement interventions including:

- Taking criminal action against those involved in serious unfair commercial practices or engaged dishonestly in cartel activity.
- Applying for Competition Disqualification Orders against directors of companies that have infringed competition law.
- Imposing financial penalties and other sanctions on companies under competition law for involvement in anti-competitive agreements and the abuse of a dominant position.
- Refusing and revoking consumer credit licences, and imposing requirements on licensees.
- Warning and banning estate agents.
- Applying for civil court orders restraining businesses from future breaches of consumer legislation.
- Imposing financial penalties and prosecuting certain classes of business for non-compliance with legislation relating to illegal money laundering.

Market tools and analysis, including:

- Actively studying markets that may not be working well for consumers through market studies, or in response to super-complaints from designated bodies.
- Referring a market to the Competition Commission for investigation where we have reasonable grounds for suspecting that any feature, or a combination of features, of the market is preventing, restricting or distorting competition in the UK.
- Monitoring, enforcing and reviewing orders and undertakings put in place in the context of a market investigation reference.

Merger control

- Reviewing information relating to merger situations and, where necessary, referring any relevant mergers to the Competition Commission for further investigation.
- Monitoring, enforcing and reviewing orders and undertakings put in place in the context of a merger reference.

Advocacy, advice and education

- Raising awareness of competition issues and advising policy makers where wider Government policies affect competition and markets.

- Informing consumers through education and awareness campaigns, and through our Consumer Direct advice service.
- Carrying out business education and encouraging business compliance.
- UK and international policy work, using our influence to promote the economic interests of UK consumers.

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

- Monitor the fitness of businesses holding or applying for a licence to offer goods or services on credit or lend money.
- Act as a supervisory authority under the Money Laundering Regulations 2007.
- Report on whether the regulatory provisions of clearing houses and investment exchanges seeking recognition have a significantly adverse effect on competition.

How we do our work

Prioritisation

Where we have discretion to choose whether or not to act, we focus our interventions on areas which pose the greatest threat to competitive, open and well-functioning markets. Our Prioritisation Principles describe the factors we consider and balance when we make decisions on our priorities. The principles are:

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

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

Minimising burdens on business

Our mission of making markets work well for consumers includes ensuring that our interventions do not impose unnecessary costs on business, subject to delivering our overall objectives. Burdens on business will typically be passed on to consumers in the form of higher prices, lower quality or reduced choice. So, where we perform direct regulatory functions – such as credit licensing – we adopt a risk-based approach, ensuring that we focus our resources on those areas where harm is most significant, therefore keeping costs and burdens to business as low as possible.

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

Transparency

Our Transparency statement² took effect from July 2010 and sets out our commitment to those involved and interested in our work in terms of how we will engage and what information we will provide through the life of a case or a project. This

² www.offt.gov.uk/about-the-offt/accessing-information/transparency/offt-transparency-statement/ The statement mainly relates to Competition Act 1998 cases, consumer enforcement cases – excluding credit – market studies and some policy projects.

includes consistently providing parties with information at the start of enforcement action and regularly updating parties on case status and timescales.

Following public consultation on our Competition Act 1998 (CA98) investigation procedures we have published guidance³ which aims to increase transparency specifically about how the OFT handles CA98 investigations. We have committed to greater transparency, with parties being informed of the identity of the decision-maker and key individuals in the case team at the outset of a formal investigation. Parties will be given access to the decision-maker at the oral representations meeting and also the opportunity to have a meeting with senior representatives of the case team before a Statement of Objections is issued. The guidance also provides greater transparency around our internal processes, including the role and involvement of our staff outside the case team in reviewing the case before a decision is taken.

Our 2011-15 Business Plan⁴ outlines our contribution to the Government's system of democratic accountability.

³ www.offt.gov.uk/about-the-offt/legal-powers/legal/competition-act-1998/ca98-procedures-guidance

⁴ www.offt.gov.uk/about-the-offt/offt-structure/accountability/business-plan

Evaluation

We are committed to gaining a better understanding of the impact of our work on consumers and the economy, and this commitment is reflected in our 2011-15 Business Plan. This refers to our use of impact indicators, including the estimation of direct savings to consumers and associated benefit-to-cost ratio and to the publication of 'at least, one independently-audited in-depth ex-post evaluation of an intervention'. (The full list of impact indicators is set out in section 5 of this plan).

As part of our work we will continue to embed impact estimation and monitoring in our day-to-day activities, will undertake in-depth research on the impact of specific interventions and will aim to gain a better understanding of the wider impact of our work (including on deterrence and growth).

Delivering faster, agile and innovative outcomes

We have made good progress in enhancing the effectiveness and improving the efficiency of our work. We are running our market studies more efficiently than ever, with studies delivering considerable savings for consumers taking well under a year now. Competition enforcement has become much more streamlined and innovative approaches - such as early resolution and short form opinions - are allowing us to achieve outcomes more quickly.

Our recently published CA98 procedural guidance will give businesses and their advisors better clarity around our processes and this should help us deliver our investigations more quickly and efficiently. We have a common interest with parties to investigations in ensuring that procedural disputes under CA98 are resolved efficiently to avoid delays and additional costs in CA98 investigations. To that end we have decided to launch a one year trial of a Procedural Adjudicator role to assist in the swift resolution of procedural disputes. In relation to consumer protection work, we will publish a policy statement setting out our approach to promoting business compliance with consumer protection law which will provide a clear explanation to businesses and others of what to expect from OFT in promoting compliance.

We aim to build on this progress through 2011-12 across our work through a mix of structural, cultural and behavioural changes - ensuring we get the best value from our talent, building our leadership and management skills, stepping up high impact enforcement work and developing a stronger delivery culture supported by the right processes, tools and support systems. Early steps in this direction include creating a Pipeline and Performance group, merging four of the enforcement teams and delayering the organisation, creating two larger groups which are able to prioritise more effectively, make

better use of resources and take decisions more rapidly.

Across our corporate services we have benchmarked services such as Human Resources, Finance, IT and Estates through the operational efficiency programme. Significant savings will be extracted through a radical overhaul of our back office

functions. To ensure better value for money we are aligning Human Resources with the new Civil Service-wide Next Generation HR service delivery model, renegotiating key contracts, and we are investing in our IT infrastructure which will deliver significant capability and productivity improvements.

2 FUTURE CHANGES TO THE COMPETITION AND CONSUMER REGIME

Competition and consumer regime proposals

As the Government consults on possible future changes to the competition and consumer regime⁵ we will continue to effectively deliver those functions that may move out of the OFT to secure the best outcomes for consumers and the economy. We will engage constructively with Government and other organisations – including Citizens Advice, Consumer Focus, the Financial Services Authority as the consultations progress, and will also ensure a smooth and seamless transition of affected functions.

Over 2011-12 two of our functions – Consumer Direct and consumer credit regulation – are particularly likely to see developments.

Consumer Direct⁶

On the proposed transfer of responsibility for delivering consumer advice and information from the OFT to Citizens Advice and Citizens Advice Scotland we will continue to work with both organisations and the Department for Business,

⁵ Including through: 'A competition regime for growth: a consultation on options for reform' (BIS, March 2011) and a forthcoming consultation on proposals for reform of the consumer regime.

⁶ The publicly funded national telephone and online advice service for consumers.

Innovation and Skills (BIS) to ensure a smooth transition. The deadline for completion of the transfer is 31 March 2012.

We will build on efficiency savings achieved for the service during 2010-11. By the start of the year we will have closed a further three of our contact centres, thereby reducing to six the number of centres offering general consumer advice. With a number of other measures this will enable us to manage Consumer Direct within the significantly reduced budget provided for in our SR10 settlement. Despite this reduction we expect to handle the same volume of contacts overall.

Consumer credit regulation

We are working closely with other Government departments in relation to consumer credit regulation as part of the development of policy in this area and in respect of proposals for transfer of responsibility from OFT to the Financial Conduct Authority. We are also working with HM Treasury and the Financial Services Authority to ensure that the timing and handling of any transfer of second charge lending ensures high quality and focused regulation is maintained, whilst minimising transitional costs, disruption, complexity and uncertainty for business and consumers.

3 KEY THEMES FOR 2011-12

There are two overarching themes to our direction of travel – **high impact enforcement** to achieve compliance with competition and consumer law and **influencing and changing the behaviour** of businesses, consumers and Government to make markets work well.

These themes are underpinned by an integrated approach to consumer and competition tools, and a recognition of the need to remove unnecessary burdens on business.

High impact enforcement to achieve compliance with competition and consumer law

By focusing efforts on core competition and consumer enforcement functions we aim to divert the maximum amount of resources to activities that produce direct market outcomes and achieve maximum deterrence across the economy of activities which are anti-competitive or damaging to consumers.

Competition enforcement

We will maintain a focus on criminal and civil cartel enforcement activity, the investigation of anti-competitive agreements and abuse of dominance cases, maximising the impact of individual and corporate sanctions, including applying for Director Disqualification Orders where appropriate.

Whilst there are reasons why we cannot disclose information about all the work we are planning – since this may prejudice our investigations, or may be market sensitive – we will be continuing a number of competition enforcement cases across a wide range of sectors in 2011-12. Those sectors include: outdoor advertising, air transport, commercial vehicle manufacture, bunker fuel card services and the hotel online booking sector.⁷

At the beginning of March 2011 our competition enforcement caseload comprised 23 civil or criminal competition enforcement cases, of which 11 were opened in the last year. We expect to begin a number of new cases through the course of the year.

Consumer enforcement

We will address the most serious national consumer problems, maximising the deterrent effect of our actions and taking precedent setting cases. We also plan to take part in BIS's civil sanctions pilot which will enable the OFT and a number of participating Local Authority Trading Standards Services (TSS) to trial a new range of civil sanctions as an alternative to criminal prosecution.

⁷ No assumption should be made at this stage that the law has been broken in relation to these sectors.

A number of our investigations will continue, including into an alleged unlawful pyramid scheme, the marketing and sale of holiday products and retirement home exit fees. We expect to follow-up our market studies into Advertising of Prices and Consumer Contracts with targeted enforcement action against firms suspected of most seriously breaching the law.

In addition we will maintain a focus on strategic enforcement to tackle online trading practices that pose a threat to consumer confidence in online markets – such as misleading selling, deceptive online marketing and advertising practices, and unfair trading practices by traders not complying with legal obligations.

Coordination of local services is increasingly important in light of the challenges posed by online trading and national/global enforcement issues. Over 2011-12 we will work with TSS to deliver high impact enforcement outcomes, providing leadership and coordination to help deliver risk-based and consistent enforcement. Intelligence collected from Consumer Direct will help OFT, TSS and other bodies build intelligence and focus resources, and the OFT/TSS intelligence management database will continue to provide a platform to share intelligence with a view to targeting enforcement action.

Consumer credit enforcement

We will continue to make use of recently strengthened credit enforcement tools focusing on high risk activities, including taking targeted enforcement action arising from the Debt Management Compliance Review. Application of intelligence material will allow for earlier interventions in problem sectors.

We aim to improve standards of business behaviour in high risk credit activities and will work in partnership with the wider credit community – individual businesses, trade associations, consumer groups and other regulators and public bodies – to promote high standards of behaviour and informed and empowered consumers. Through publicity we will ensure that consumers are alerted to potentially harmful business practices. We will also:

- update debt management guidance
- update debt collection guidance to take account of changes to the market and to provide clearer guidance on debt purchasing
- review irresponsible lending guidance, its effect and how businesses have regard to it
- consult on draft credit brokerage guidance, and
- publish mental capacity guidance.

Market studies

Strengthening the impact of our market studies is a priority, and includes using studies in appropriate cases to improve our understanding for later enforcement action. Where a study identifies structural or behavioural defects in a market we will seek solutions to address these problems such as making market investigation references to the Competition Commission or making recommendations to Government.

We expect to be in a position to publish the outcome of our market study into organic waste in July 2011, we are aiming to publish our market study into mobility aids in September 2011 and our market study into off-grid energy by Autumn 2011.

Merger review

Merger review, which is demand led and a legal requirement, will remain a key area of our work.

Influencing and changing behaviour

Alongside enforcement, which itself provides wider deterrence across markets, we aim to make markets work well by changing the behaviour of businesses, consumers and Government aiming to prevent problems in the first place. We will work with businesses to increase compliance, with consumers to enable them to better engage with businesses, with Government to inform policy and deliver improvements to the competition

and consumer regimes, and with other agencies to increase our overall effectiveness.

Encouraging a culture of compliance

We will use different levers to encourage business compliance building on our recent reports on Drivers of Compliance with both competition and consumer law.

In the spring we will publish guidance on Company Directors and Competition, setting out guidance for directors on their duties under competition law. In addition, we will publish practical advice on how businesses can promote a compliance culture and mitigate the risks of infringing competition law. Our policy statement setting out the OFT's approach to promoting business compliance with consumer protection law will provide a clear explanation to businesses and others of what to expect from OFT in promoting compliance.

Our business focused campaigns activity will support the promotion of both competition and consumer law compliance, including developing simplified guidance on the Distance Selling Regulations and continued promotion of the Sale of Goods Act hub to business.

In relation to the Consumer Codes Approval Scheme (CCAS), over 2011-12 we will prioritise available resources to progress codes to completion of Stage One or Stage Two approval of the CCAS. We will continue to work with existing code

sponsors to monitor the effectiveness of their codes. Until there is greater clarity over Government plans for CCAS we have decided to suspend the scheme to new applicants.

More active and informed consumers with sufficient protection for the vulnerable

Influencing consumers through our consumer education work is key to bringing about behavioural change, and engaging with business is an effective way to complement enforcement action to stimulate wider deterrent and education effects. Our approach will be to deliver our work in partnership, working with TSS in particular to ensure that national and local messages are mutually reinforcing.

Our consumer campaigns activity in 2011-12 will primarily support:

- recent market studies such as advertising of prices
- online consumer protection, and
- 'Skilled to Go' – the OFT's online educational resource for teachers.

We will provide advice to consumers, especially those who are vulnerable, in relation to consumer credit regulation. Our work will also include the provision of timely advice and warnings around unscrupulous business practices.

Notwithstanding proposals for the transfer of responsibility for delivery of consumer advice and information by March 2012, Consumer Direct will continue to be managed by the OFT and delivered in partnership with TSS over 2011-12 providing clear, practical and impartial advice to enable consumers to exercise their rights.

International leadership

Focusing on our core activities means that we will have to commit fewer of our resources to providing intellectual leadership to international competition and consumer agencies. It is therefore vital that we rigorously prioritise our international engagement to ensure the greatest impact, including by improving cooperation with our international counterparts on cases and benefiting from international best practice.

This will include ensuring effective and targeted engagement in the substantive work of the International Competition Network (the Chief Executive Officer currently chairs the ICN Steering Group), Organisation for Economic Cooperation and Development, European Competition Network, International Consumer Protection and Enforcement Network, and the Consumer Protection Committee.

4 SECTOR AND THEMATIC FOCUS

Reduced resources require that we get even better at prioritising our cases, making sure that we focus on areas that matter most to consumers and the economy. We will focus on areas that are strategically important for growth and for the quality of life for UK consumers.

Public services markets

Public services are increasingly being opened up to the private and voluntary sectors with a view to achieving more innovation, diversity and responsiveness to public need. As well as traditional supply side issues, such as avoiding excessive market power, attention is now being focused on demand side issues. This is particularly relevant in opening up markets such as education and healthcare to ensure consumers can play an active role and drive competition.

Additionally, where Government intervenes in markets this may have unintended consequences, for example by raising entry barriers for new or small firms, and/or distorting competition to favour existing firms in the market. These unintended consequences can all have long term effects which may stifle choice, innovation and growth.

We have addressed restrictions in public markets through several pieces of work including market studies (such as the Commercial Use of Public Information,

Pharmaceutical Price Regulation Scheme) and competition advocacy where we have been involved in working closely with Government departments on policy issues that are likely to have a significant effect on the market.

Our competition advocacy role also involves overseeing competition assessments within Impact Assessments and providing advice to policy makers on key areas related to the opening up of markets to competition, such as *Choice and competition in public services*, *Government in markets* and *Competitive neutrality*. We are currently in the process of examining the effect of public sector commissioning and procurement on competition in markets.

Over 2011-12 we will provide constructive advice to Government, based on our expertise, to help frame and deliver public markets that work well for users and taxpayers, achieving cultural change that is needed. This will include:

- A project on Choice Tools, (information tools that assist consumers in choosing between competing services and providers for public markets).
- Continuing our study into Private Healthcare which is considering whether patients and buyers of private healthcare services are getting the full benefit of choice and competition.

- Working with other Government departments to advise on aspects of the public sector reform agenda to ensure that emerging policy does not have an adverse impact on competition.
- Overseeing competition assessments within Impact Assessments.

High innovation markets and business models

If business does not innovate economic prosperity is threatened, recovery may be slower and more difficult and consumers will lose confidence in markets.

Returning the UK to sustainable economic growth is the Government's overriding priority. In its Growth Review⁸ the Government acknowledges that a 'sound intellectual property framework is essential to protect incentives for entrepreneurship and innovation, underpinning the dynamism the Government wants to see in the UK economy'. It also comments that 'a reliable and cost-effective energy system, delivered through a higher proportion of low carbon generation is a pre-requisite for sustainable growth'.

Our work in this area will include a particular focus on intellectual

⁸ The path to strong, sustainable and balanced growth (HMT/BIS) www.hm-treasury.gov.uk/d/growth_291110.pdf

property and low carbon, with a view to providing a clearer framework for business and ensuring that the dynamic benefits of competition materialise.

Developing trust in online markets

Our strategy for protecting consumers online⁹ says that online shopping, worth around £50bn, is key to driving innovation and competition and has delivered huge benefits for consumers. The strategy also highlights that continuing online innovation must be met with strategic enforcement to tackle new and complex forms of unfair trading that harm both consumers and markets.

Whilst the UK has a vibrant internet economy, with strong online participation and generally high levels of trust, the way we shop online is constantly changing and organisations protecting consumers need to be highly responsive to emerging or complex online shopping problems.

Research undertaken for the OFT found that one in four people worry more about online shopping than offline and overall, one in seven consumers has experienced a problem when buying online, of whom 37 per cent have since been reluctant to buy online again. We also found that only around one in

⁹ Protecting consumers online – a strategy for the UK (OFT1252 – December 2010).

five firms are fully complying with consumer law for online shopping, with common breaches including unfair restrictions on cancellations of orders for products.

Our activities in 2011-12 will focus on strategic enforcement to tackle online trading practices that pose a threat to consumer confidence in online markets, working with business to raise awareness of their legal obligations and empowering consumers so they are aware of their rights.

Economic infrastructure sectors

Effective infrastructure is crucial to the performance and growth of the UK economy and quality of life for UK consumers.

Our work in 2011-12 will be informed by the outcomes of our stock take of *Infrastructure ownership and control*. Within that report we set out how we will assess the case for intervention in infrastructure sectors. We also highlight the potential risks of intervention, including the potential 'chilling' effect on investment where firms have taken commercial risks in establishing their position.

Markets impacted by commodity price rises

In light of strained consumer finances we will look to focus on markets that are affected by rising global commodity prices, particularly where these have the potential to impact on the quality of life for UK consumers.

Transparency and fairness in advertising and prices

Evidence from our Advertising of Prices market study shows that certain pricing techniques, when used in a misleading way, can result in consumers making purchasing decisions they would not have made or spending more money than they need to had prices been more clearly advertised.

After extensive engagement with industry we have developed a framework for prioritising enforcement action in this area.¹⁰ Over 2011-12 we plan to take targeted enforcement action against firms suspected of most seriously breaching the law.

Our work will also be informed by the outcomes of our studies on Consumer Contracts and Online Targeting of Advertising and Prices.

Protecting vulnerable consumers

Our Prioritisation Principles state that we may sometimes favour projects that would benefit disadvantaged consumers in order to build overall confidence in consumer markets. Disadvantaged consumers may be particularly vulnerable to exploitation within markets, or may simply not share in the benefits of greater competition. Vulnerability may relate to the capacity of the consumer – for example poor literacy or

¹⁰ This framework fits with the OFT's overall prioritisation principles in that it assesses the likely impact of any action.

numeracy skills or low income (individual vulnerability).

Vulnerability may also relate to the nature of the product and/or the way it is sold, such as high pressure selling (situational or transactional vulnerability). For example, whilst the internet brings great benefits it also brings with it extra risks around situational and transactional vulnerability. The distance between the seller and the consumer creates risk and this means that we need payment and delivery systems which create and maintain trust in that relationship.

Recent work has helped develop our understanding around aspects of vulnerability. From a transactional perspective our studies into Advertising of Prices and Online Targeting of Advertising and Prices have taught us more about how consumers and businesses behave in internet transactions. From an individual's perspective, we have also considered how people on the lowest incomes are treated in terms of access to the internet, and in food, energy, financial services and transport markets.¹¹ Taking into account our general and specific duties under the Equality Act 2010 we will continue to improve our understanding over 2011-12 with a

view to further informing how we prioritise our work, seeking input from stakeholders as we take this forward.

We will also build on our track record of targeted interventions across our work – including consumer credit, market studies, education and awareness - maintaining a focus on high risk activities that pose the greatest risk of consumer harm. The 'Key themes' section above sets out specific examples of work that we will undertake which have a particular focus on protecting vulnerable consumers.

¹¹ 'Markets and households on low incomes' (OFT1268 Report undertaken for the OFT by Europe Economic and New Policy Institute).

5 SPENDING REVIEW 2010

Spending review settlement 2010 (SR10)

The OFT's budget has been reduced by 25 per cent in real terms phased over four years. Within this overall figure, our administration budget will be reduced by a third. The definition of administration spending set for SR10 includes not only back office functions, such as finance and human resources, but also aspects of communications, policy and strategy functions. We have:

£56.977m for **2011-12** (of which £39.659m is frontline)¹²

£54.263m for **2012-13** (of which £38.093 is frontline)

£51.785m for **2013-14** (of which £36.846m is frontline)

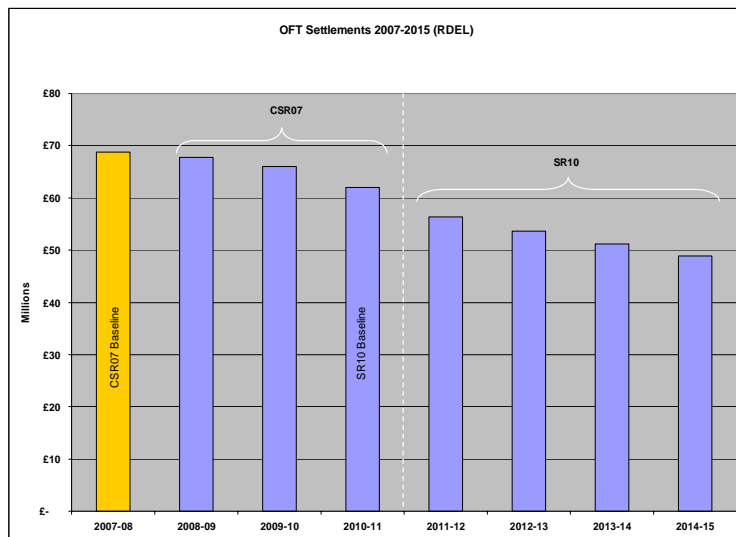
£49.658m for **2014-15** (of which £35.857m is frontline)

Over the SR10 period the impact of our work will be assessed through impact indicators agreed with HM Treasury (see below).

The OFT has become more efficient in the past three years to meet a 5

per cent year-on-year budget reduction.

Table 1: Budget profile



The outcomes of consultations on the consumer and competition regime will have an impact on how this reduction will be implemented over SR10.

¹² Defined as 'Programme spend'. Figures exclude depreciation.

Impact indicators

Information on how we contribute to the Government's system of democratic accountability can be found in the OFT's Business Plan for 2011-15 which is available on our website. In line with the Government's commitment to transparency the Business Plan has a transparency framework that includes key indicators against which we will publish data to show the cost and impact of our services to the public. Our *impact* indicators are set out below:

- Estimation of direct savings to consumers from the OFT's activities (Positive Impact Report) and associated benefit to cost ratio – *to be published annually*
- At least one independently-audited in depth ex post evaluation of an intervention – *to be published annually*
- Provide customer service key performance indicators for: Consumer Credit Licensing, Consumer Direct, Mergers and Anti-Money Laundering supervision – *to be published quarterly*
- Provide statistics and information on the OFT's enforcement and non-enforcement activities, including results on appeal – *to be published annually*
- Participate in international comparison assessments (for example, the Global Competition Review or others) - *annually*
- Publish statistics of direct settlement, third party interventions and undertakings in lieu – *to be published annually.*