



resource  
accounts  
2003-04

(For the year ended  
31 March 2004)

The resource accounts must  
give a true and fair view of the  
state of affairs of the OFT.

# Contents

Contents	Page
<b>Annual Report</b>	109
<b>Statement of Accounting Officer's Responsibilities</b>	113
<b>Statement On Internal Control</b>	114
<b>The Certificate and Report of the Comptroller and Auditor General to the House of Commons</b>	116
<b>The Accounting Schedules</b>	
<b>Schedule 1 – Summary of Resource Outturn</b>	118
<b>Schedule 2 – Operating Cost Statement and Statement of Recognised Gains and Losses</b>	119
<b>Schedule 3 – Balance Sheet</b>	120
<b>Schedule 4 – Cash Flow Statement</b>	121
<b>Schedule 5 – Resources by Departmental Aim and Objective</b>	122
<b>Notes to the Resource Accounts</b>	123

## Annual Report

The Office of Fair Trading is an independent competition and consumer protection authority. For government accounting purposes, it is a non-ministerial government department. For further details of the OFT's aims, objectives and activities please read the OFT's Annual Report for the year ended 31 March 2004, which is published with these accounts.

## Operating and Financial Review

The activities of the OFT are funded by parliamentary vote. In 2003-04 the OFT had a gross budget allocation of £54.7m for administration and programme expenditure and £3.4m for capital expenditure. During the year the OFT incurred gross expenditure of £48.9m on administration and programme expenditure in pursuit of its objectives, as detailed in Schedule 5 'Resources by Departmental Aim and Objectives'.

The OFT also invested £1m in capital expenditure during the year in respect of furniture, office equipment, IT hardware, software and IT software licences.

The financial statements are fully compliant with the requirements detailed in Financial Reporting Standard (FRS) 17.

The OFT received income of £6.9m 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 £1.6m relating to Competition Act 1998 (CA98) infringements. All this income is surrendered to the Consolidated Fund. In addition the OFT received income of £0.3m in rental income from minor occupiers and in respect of CA98 notification fees which the OFT retained as appropriation in aid.

The net cash requirement variation of £7.3m consists of an overall underspend of £4.9m on administrative expenditure plus an underspend on capital of £2.4m.

## Annual Report

The OFT is required to present an Annual Report to Parliament for each financial year. These Resource Accounts are within the Annual Report of the OFT.

### **Board of the OFT and senior management team**

The OFT Board is chaired by John Vickers. The other members of the Board are: Penny Boys (executive member) and five non-executives, Allan Asher, Lord Blackwell, Christine Farnish, Richard Whish and Rosalind Wright. Details of the senior management team are included on pages 16 to 19.

For the financial year 2003-04 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 and the service of each would be terminated under it, if that were to be necessary.

### **Remuneration Committee**

The OFT Remuneration Committee determines the salaries paid to Senior Civil Servants within the OFT. During 2003-04 the committee comprised two independent members and John Vickers.

### **Chairman's and board members' remuneration**

The Chairman'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. Penny Boys' remuneration is decided within central policy for Civil Service pay.

### **Corporate Governance and Risk Management**

The OFT is committed to ensuring a high standard of corporate governance. Since 1 April 2003, the OFT Board has responsibility for defining strategy and determining resource allocations to ensure the delivery of the OFT's objectives.

### **Audit Committee**

During the financial year ending 31 March 2004 the Audit Committee comprised three independent members (Nigel Matthews, Sir Geoffrey Owen and Tim Head) and two board members (Penny Boys and Lord Blackwell). It was and is chaired by an independent member, Nigel Matthews.

### **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 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.

### **Equal Opportunities policy**

The OFT is an equal opportunities employer. The aim is to be fair to everybody; to ensure that no eligible job applicant or employee receives less favourable treatment on the grounds of race, colour, nationality or ethnic or national origins, age, gender, sexual orientation, marital status, disablement, religion or religious affiliation, or is disadvantaged by conditions or requirements which cannot be shown as justifiable. The OFT's policy builds on the Civil Service Code of Practice on Employment of Disabled People and the statutory obligations of employers under the Sex Discrimination Act 1975, the Race Relations Act 1976, the Disability Discrimination Act 1995, the Race Relations (Amendment) Act 2000, the Employment Equality (Sexual Orientation) Regulations 2003 and the Employment Equality (Religion or Belief) Regulations 2003.

### **Learning and development**

During the year the OFT continued to give high priority to training and developing all our staff to enhance their professionalism to support the OFT's objectives.

### **Employee consultation**

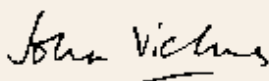
The OFT is committed to informing and consulting with staff. It has continued to develop and improve its intranet pages as well as using electronic mail and regular hardcopy newsletters to ensure that staff have access to a wide range of information, are kept abreast of OFT developments, and given the opportunity to feedback and comment on them. The OFT also operates a Departmental Whitley Council on a regular basis throughout the year.

### 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 2003-04 the OFT paid 98 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. No interest was paid under the Late Payment of Commercial Debt (Interest) Act 1998.

### Auditors

The Resource Accounts have been audited by the Comptroller and Auditor General. The cost of the audit (notional fee) was £50,000. In July 2003, the Public Accounts Committee published a report entitled The Office of Fair Trading: progress in protecting consumers' interests (34th Report, HC546, 2002-2003). This report followed up progress the OFT had made since the Committee's earlier report, in August 2000, on the OFT's performance in protecting consumers' interests (37th Report, HC501, 1999-2000).



**John Vickers**

Chairman and Accounting Officer for the OFT

24 June 2004

## 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 the OFT 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 Chairman) 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 Resource Accounting 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 Resource Accounting Manual, have been followed, and disclose and explain any material departures in the resource accounts; and
- 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, set by the board, 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 purpose of the system of internal control

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

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the OFT's policies, aims and objectives; 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 system was in the process of continuous development during the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

Risk is managed at all levels in the OFT. 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.

We have held risk management workshops during the year to enable staff to manage risk in a way appropriate to their responsibilities.

### The risk and control framework

In the OFT 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 senior management team, which also meets monthly to consider progress in and risks to achieving the OFT's policies, aims and objectives;
- An audit committee comprising three independent members, a non-executive member of the board and an operational director, which meets up to four times a year;

- Detailed quarterly performance reports to the board from operational 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 divisions;
- 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 Mazars, Chartered Accountants) 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.

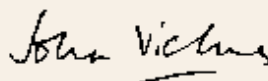
### Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the OFT who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

I have also been advised on the implications of my review of the effectiveness of the system of internal control by the Board and by the Audit Committee, and a plan to address identified weaknesses and ensure continuous improvement is in place.

I receive annual reports from the Chairman of the Audit Committee and the Head of Internal Audit (HIA). These reports conclude that the OFT has a sound framework of risk management, governance and control which provides reasonable assurance regarding the effective achievement of the OFT's objectives. There are no serious weaknesses.

Specifically in the area of risk management, both reports recommend that the OFT should implement a system of key performance and risk indicators, or other early warning mechanisms. In addition, the report from the Chairman of the Audit Committee recommends that the OFT should ensure that risk appetites are included in the operational risk registers that form part of the OFT's internal business plans and that risk awareness and management is built into the OFT's staff development programme. We are committed to implement these recommendations during the coming year.



**John Vickers**

Chairman and Accounting Officer of the OFT

24 June 2004

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

I certify that I have audited the financial statements on pages 118 to 134 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 123 to 124.

### **Respective responsibilities of the Accounting Officer and Auditor**

As described on page 113, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report and Resource Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts

Act 2000 and Treasury directions made thereunder, and 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. I also report if, in my opinion, the Annual Report on pages 109 to 112 is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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.

I review whether the statement on pages 114 to 115 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are 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 are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Office of Fair Trading at 31 March 2004, and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- 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.

I have no observations to make on these financial statements.

### John Boun

Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
London SW1W 9SP  
*28 June 2004*

## resource accounts

Schedule 1

### Summary of Resource Outturn

for the year ended 31 March 2004

	2003-2004						2002-2003	
	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	
<b>RfR : Advancing and safeguarding the economic interests of UK consumers</b>								
<b>Total Resources</b> (see notes 5, 8 and 26)	54,681	306	54,375	48,866	281	48,585	5,790	43,509
<b>Non-operating cost A-in-A</b>	-	-	-	-	-	-	-	-
<b>Net Cash Requirement</b>	-	-	55,077	-	-	47,812	7,265	45,420

### Summary of Income Payable to the Consolidated Fund

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

	Note	2003-2004 Forecast		2003-2004 Outturn	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Total	4	6,225	<i>6,225</i>	8,471	<i>9,000</i>

#### Explanation of the variation between Estimate and Outturn (net total resources):

A number of factors contributed to the underspend. In self regulation, we have postponed until 2004-05 the national launch to consumers of the Consumer Codes Approval Scheme so that we have a critical mass of approved codes to ensure maximum coverage and credibility of the scheme. Other contributing elements included lower than anticipated spend on consultancy, a delay in the recruitment of staff and a reduction in provisions.

#### Explanation of the variation between Estimate and Outturn (net cash requirement):

The net cash requirement variation of £7.3m consists of an overall underspend of £4.9m on administrative expenditure plus an underspend on capital of £2.4m. The capital underspend arose from a decision to defer major works to Fleetbank House pending an operational review.

### Reconciliation of Resources to Cash Requirement

	Note	£000	£000	£000	£000
<b>Net Total Resources</b>		54,375	48,585	5,790	43,509
<b>Capital:</b>					
Acquisition of fixed assets (tangible and intangible)	10	3,398	978	2,420	1,990
Investments	1.5	-	-	-	-
<b>Non-operating A-in-A:</b>					
Proceeds of fixed asset disposals		-	-	-	-
<b>Accruals adjustments:</b>					
Non-cash items	3	(2,902)	(1,836)	(1,066)	(4,006)
Changes in working capital other than cash	11	206	(185)	391	3,476
Changes in creditors falling due after more than one year					
Use of provision	15	-	270	(270)	451
<b>Net Cash Requirement</b> (Schedule 4)		<b>55,077</b>	<b>47,812</b>	<b>7,265</b>	<b>45,420</b>

The notes on pages 123 to 134 form part of these accounts.

Schedule 2

# Operating Cost Statement

for the year ended 31 March 2004

	Note	2003-2004	2002-2003
		£000	£000
<b>Administration Costs:</b>			
<i>Request for Resources 1</i>			
Staff Costs	2	28,244	23,274
Other Administration Costs	3	19,089	20,555
		47,333	43,829
<b>Gross Administration Costs</b>		<b>47,333</b>	<b>43,829</b>
Operating Income	5	(8,739)	(12,336)
<b>Net Administration Costs</b>		<b>38,594</b>	<b>31,493</b>
<b>Programme Costs</b>			
<i>Request for Resources 1</i>			
Expenditure	1.8 & 3	1,533	300
Income			
<b>Net Programme Costs</b>		1,533	300
<b>Net Operating Cost</b>		7&8 <b>40,127</b>	<b>31,793</b>
<b>Net Resource Outturn</b>		7&8 <b>48,585</b>	<b>43,509</b>

## Statement of Recognised Gains and Losses for the year ended 31 March 2004

		2003-2004	2002-2003
		£000	£000
Net gain on revaluation of tangible fixed assets	17	242	428
Net gain on revaluation of intangible fixed assets	17	15	16
Actuarial loss	15	(5)	-
Prior year adjustment		-	(7,672)
Total gain/(loss) since last financial statements		252	(7,228)

All income and expenditure are derived from continuing operations.

The notes on pages 123 to 134 form part of these accounts.

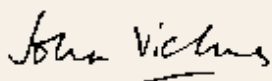
# resource accounts

Schedule 3

## Balance Sheet

as at 31 March 2004

	Note	as at 31 March 2004		as at 31 March 2003	
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Tangible assets	10	7,702		8,198	
Intangible assets	10	<u>558</u>		<u>524</u>	
			8,260		8,722
<b>Current Assets</b>					
Debtors	12	2,373		3,201	
Cash at bank and in hand	13	<u>1,929</u>		<u>5,870</u>	
		4,302		9,071	
<b>Creditors (due within one year)</b>	14	(5,880)		(10,462)	
<b>Net Current Assets</b>			<u>(1,578)</u>		<u>(1,391)</u>
<b>Total Assets less Current Liabilities</b>			6,682		7,331
<b>Provisions for Liabilities and Charges</b>					
	15	(4,067)		(4,316)	
			<u>(4,067)</u>		<u>(4,316)</u>
			<b><u>2,615</u></b>		<b><u>3,015</u></b>
<b>Taxpayers' Equity</b>					
General Fund	16		1,914		2,506
Revaluation reserve	17		<u>701</u>		<u>509</u>
			<b><u>2,615</u></b>		<b><u>3,015</u></b>



John Vickers  
Chairman and Accounting Officer  
24 June 2004

The notes on pages 123 to 134 form part of these accounts.

Schedule 4

# Cash Flow Statement

for the year ended 31 March 2004

	2003-2004	2002-2003
	£000	£000
Net cash outflow from operating activities (A)	<b>(37,847)</b>	<b>(28,834)</b>
Capital expenditure and financial investment (B)	<b>(965)</b>	<b>(2,434)</b>
Payments to the Consolidated Fund	<b>(13,046)</b>	<b>(9,188)</b>
Financing (C)	<b>47,917</b>	<b>42,482</b>
<b>(Decrease)/Increase in cash in the period</b>	<b>(3,941)</b>	<b>2,026</b>
	Note	
	£000	£000
<b>(A) Reconciliation of operating cost to operating cash flows</b>		
<b>Net operating cost</b>	<b>40,127</b>	<b>31,793</b>
Adjust for non-cash transactions	3 (1,836)	(4,006)
Adjustments for movements in working capital other than cash	11 (714)	596
Adjust for transfer from provision	15 270	451
<b>Net cash outflow from operating activities</b>	<b>37,847</b>	<b>28,834</b>
<b>(B) Analysis of capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	10 853	2,027
Proceeds of disposal of fixed assets	(13)	
Purchase of intangible fixed assets	10 125	407
<b>Net cash outflow from investing activities</b>	<b>965</b>	<b>2,434</b>
<b>(C) Analysis of financing and reconciliation of the net cash requirement</b>		
From the Consolidated Fund (Supply)	47,917	42,482
<b>Net financing</b>	<b>47,917</b>	<b>42,482</b>
<b>Decrease/(increase) in cash</b>	<b>3,941</b>	<b>(2,026)</b>
<b>Net cash flows other than financing</b>	<b>51,858</b>	<b>40,456</b>
<b>Adjust for payments and receipts not related to Supply</b>		
Consolidated Fund Extra Receipts received and not paid over	1,757	5,803
Consolidated Fund Extra Receipts received relating to the prior year and paid over	(5,803)	(854)
Transitional Adjustment	-	15
<b>Net cash requirement (Schedule 1)</b>	<b>47,812</b>	<b>45,420</b>

Amount of grant actually issued to support the net cash requirement = £ 47,917,000.00  
The notes on pages 123 to 134 form part of these accounts.

## resource accounts

Schedule 5

# Resources by Departmental Aim and Objectives

for the year ended 31 March 2004

**AIM:** The aim of the OFT is to make markets work well for consumers by advancing and safeguarding the economic interests of consumers in the United Kingdom, promoting effective competition, removing trading malpractice, and publishing appropriate guidance.

Objective	2003-2004			2002-2003		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
<b>1. Competition Enforcement.</b> To make sure that competition works well in markets for goods and services so as to make markets more efficient and benefit consumers.	15,016	2,625	12,391	14,359	7,254	7,105
<b>2. Consumer Regulation Enforcement.</b> To help maximise consumer welfare in the longer term, subject to protecting vulnerable consumers' interests by: empowering consumers through information and redress; protecting them by preventing abuse; and promoting competitive and responsive supply.	12,616	5,992	6,624	12,801	4,844	7,957
<b>3. Markets &amp; Policy Initiatives.</b> To lead major market studies. Also, to lead the assessment of the competitive impact of new laws and regulations, the preparation for government policy initiatives and public liaison.	8,022	46	7,976	7,137	100	7,037
<b>4. Communications.</b> To show the importance of competitive markets. To explain decisions transparently. To promote and explain compliance with the law. To promote consumer awareness. To manage the OFT's IT infrastructure. To enhance and improve effective internal communications.	13,212	76	13,136	9,832	138	9,694
<b>Net operating costs</b>	<b>48,866</b>	<b>8,739</b>	<b>40,127</b>	<b>44,129</b>	<b>12,336</b>	<b>31,793</b>

Our methodology for preparing Schedule 5 is set out in accounting policy note 1.15. The notes on pages 123 to 134 form part of these accounts.

# Notes to the Resource Accounts

## 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2003-04 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM 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 £5000. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into a working condition. All tangible fixed assets are re-analysed to current value each year. Leasehold Improvements are re-analysed each year by the use of the appropriate published indices. Non-property operational assets are revalued to open market value where obtainable, or on the basis of depreciated replacement cost where market value is not obtainable. Published indices, appropriate to the category of asset, are normally used to estimate value.

### 1.3 Depreciation

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

Asset lives are normally in the following ranges:

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

### 1.4 Intangible fixed assets

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

### 1.5 Investments

The OFT has no investments.

### 1.6 Research and development

Expenditure on research and development is not capitalised.

### 1.7a Operating income

Operating income is income which relates directly to the operating activities of the department. It principally comprises of rental income from minor occupiers of Fleetbank House, Competition Act notification fees, Competition Act penalties imposed and charges to external customers under the Consumer Credit Act 1974, Fair Trading Act 1973 and the Enterprise Act 2002 which are set by the Department 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 RAM is treated as operating income. The department has three sources of income payable to the Consolidated Fund. These are fees for administration of the Consumer Credit Act 1974, fees charged for mergers under the Fair Trading Act 1973 and Enterprise Act 2002 and Competition Act penalties. Operating income is stated net of VAT.

### 1.7b 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 fees. The classification of expenditure and income as administration or programme follows the definition of administration costs set by HM Treasury.

# resource accounts

## 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 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 Note 2. 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 15.

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.

## 1.13a Provisions and contingencies

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 3.5 per cent in real terms. From 2003-04, 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.

**1.13b** In addition to contingent liabilities disclosed in accordance with FRS 12, the OFT discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. For the OFT, these comprise items over £100,000 (for which there is no specific statutory authority) that do not arise in the normal course of business and which are reported to Parliament by departmental minute prior to the department entering into the arrangement.

## 1.14 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 Customs & Excise in respect of VAT is included within Debtors and Creditors within the Balance Sheet.

## 1.15 Schedule 1 and Schedule 5

The information contained in Schedule 1 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 percentage of direct costs.

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-analysed 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 24.

**2. Staff related costs and staff numbers**

**A. Staff costs consist of:**

	2003-2004	2002-2003
	Officials	Officials
	£000	£000
Wages and Salaries	20,022	18,240
Social security costs	1,824	1,372
Pension costs	3,219	2,648
Amounts Payable in respect of agency/temporary staff	1,631	1,014
<b>Sub total</b>	<b>26,696</b>	<b>23,274</b>
Inward secondments	1,562	
<b>Total</b>	<b>28,258</b>	<b>23,274</b>
Less recoveries in respect of outward secondments	(14)	
<b>Total net costs</b>	<b>28,244</b>	<b>23,274</b>

During 2003-2004 staff costs rose by 21%. This is due mainly to an increase in staff numbers resulting from the increased responsibilities of the OFT in relation to the Enterprise Act 2002.

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](http://www.civilservice-pensions.gov.uk)).

For 2003-2004, employer contributions of £3,218,819 were payable to the PCSPS (2002-03: £2,648,436) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands, but will increase from 2005-06. 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 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £31,132 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 of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,576, 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.

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

**B. The average number of whole-time equivalent persons employed (including senior management) during the year was as follows:**

	2003-2004				2002-2003	
	Number				Number	
	Total	Senior management	Officials	Staff on inward secondment	Agency, temporary and contract staff	
Competition Enforcement	231	12	194	17	8	201
Consumer Regulation Enforcement	287	8	245	6	28	242
Markets & Policy Initiatives	109	7	80	14	8	86
Communications	78	2	59	2	15	63
<b>Total</b>	<b>705</b>	<b>29</b>	<b>578</b>	<b>39</b>	<b>59</b>	<b>592</b>

Staff figures are calculated by a two-stage process. First 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.

## resource accounts

C. The salary and pension entitlements of the most senior managers of the Department were as follows:

2003-2004	Salary, including performance pay	Benefits in kind (rounded to nearest £100)	Real increase in pension and related lump sum at age 60 (£K)	Total accrued pension at age 60 and related lump sum (£K)	CETV at 31/3/03 (nearest £K)	CETV at 31/3/04 (nearest £K)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £K)	Employer contribution to partnership pension account including risk benefit cover – to nearest £100
Mr John Vickers Chairman	190-195	–	0-2.5 plus lump sum 5-7.5	5-10 plus lump sum 25-30	77	113	32	–
Miss Penny Boys Executive Director	110-115	–	0-2.5 plus lump sum 2.5-5	45-50 plus lump sum 145-150	800	855	38	–
Miss Caroline Banks (until 30 June 2003) Director Consumer Regulation Enforcement Division	20-25	–	0-2.5 plus lump sum 0-2.5	30-35 plus lump sum 90-95	469	494	10	–
Mrs Christine Wade (from 1 July 2003) (ii) Director Consumer Regulation Enforcement Division	60-65	–	30-32.5	30-35	7	424	78	–
Mrs Margaret Bloom * (until 31 July 2003) Director Competition Enforcement Division	55-60	–	0-2.5	45-50	748	775	16	–
Mr Vincent Smith (from 1 August 2003) (ii) Director Competition Enforcement Division	55-60	–	0-2.5 plus lump sum 0-2.5	10-15 plus lump sum 20-25	90	114	18	–
Miss Pat Edwards Director Legal Division	95-100	–	0-2.5 plus lump sum 0-2.5	45-50 plus lump sum 140-145	858	899	23	–
Mr David Fisher * Director Resources & Services Division	60-65	–	0-2.5	10-15	145	168	17	–
Mr Jonathan May Director Markets & Policy Initiatives Division	80-85	–	2.5-5 plus lump sum 10-12.5	30-35 plus lump sum 95-100	471	555	74	–
Mr Mike Ricketts Director Communications Division	70-75	–	0-2.5 plus lump sum 5-7.5	30-35 plus lump sum 90-95	482	539	45	–
<i>Non-Executive Board Members</i>								
Mr Allan Asher	10-15	–	see note (i)					
Lord Norman Blackwell	10-15	–	see note (i)					
Mrs Christine Farnish	10-15	–	see note (i)					
Mr Richard Whish	10-15	–	see note (i)					
Mrs Rosalind Wright	45-50	–	see note (i)					

\* opted to join premium

(i) Non-Executive Board Members were appointed with effect from 1 April 2003 and therefore show no real increase in pension. Their accrued pension details were unavailable at June 2004.

(ii) Christine Wade's and Vincent Smith's salaries only reflect the period from which they took up their appointments as disclosed above.

2002-2003	Salary (as defined above)	Benefits in Kind
	£000	£000
Mr John Vickers Director General of Fair Trading	185-190	–
Miss Penny Boys Deputy Director General of Fair Trading	100-105	–
Miss Caroline Banks Director Consumer Regulation Enforcement Division	75-80	–
Mrs Margaret Bloom Director Competition Enforcement Division	95-100	–
Miss Pat Edwards Director Legal Division	95-100	–
Mr David Fisher Director Resources & Services Division	60-65	–
Mr Jonathan May Director Markets & Policy Initiatives Division	75-80	–
Mr Mike Ricketts Director Communications Division	65-70	–

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. For 2003-2004 payments totalling £71,200 were made to retired Directors General.

**D. Salary details**

Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowances to the extent that it is subject to UK taxation. No employees (including senior management) received benefits in kind.

**E. Pensions**

Pension benefits are provided through the Civil Service Pension (CSP) 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 from 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 as per classic.

Further details about the CSP arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

Columns 5 and 6 of the above table show the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 7 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.

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any spouse's contingent 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 the 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 CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit 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.

## resource accounts

### 3(i) Non-staff administration costs

	2003-2004		2002-2003	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machines	122		126	
Other operating leases	4,363		5,225	
		4,485		5,351
Interest paid				3
Research expenditure		336		283
Non-cash items:				
Loss on disposal of fixed assets	14		10	
Depreciation	1,595		1,739	
Cost of capital charge	79		166	
Auditor's remuneration and expenses	50		44	
Devaluation of IT Hardware	77		94	
Provision: Amounts provided for in year	428		1,953	
Amounts not required written back	(578)		-	
Unwinding of discount on provisions	171		-	
Total Non-Cash Costs		1,836		4,006
Other expenditure		12,432		10,912
		19,089		20,555

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

### 3(ii) Programme costs

	2003-2004		2002-2003	
	£000	£000	£000	£000
Total programme expenditure		1,533		300

Total programme expenditure of £1,533k (2002-2003 £300k) comprises litigation costs of £1,531k and expert witness costs of £2k.

## 4. 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):

	2003-2004 Forecast		2002-2003 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts				
- excess A-in-A	-	-	-	-
Non-operating income and receipts				
- excess A-in-A	-	-	13	<i>13</i>
<b>Subtotal</b>	-	-	13	<i>13</i>
Other operating income and receipts not classified as A-in-A	6,225	<i>6,225</i>	8,458	<i>8,987</i>
Other non-operating income and receipts not classified as A-in-A	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
<b>Total</b>	6,225	<i>6,225</i>	8,471	<i>9,000</i>

**5. Income and appropriations in aid**

	2003-2004			2002-2003		
	Appropriated	Not	Total	Appropriated	Not	Total
	in Aid	appropriated		in Aid	appropriated	
	£000	£000	£000	£000	£000	£000
Operating income analysed by classification and activity, is as follows:						
Administration income:						
Allowable within administration cost limit	281	-	281	620	-	620
Fees and charges to external customers	-	8,458	8,458	-	11,716	11,716
Fees and charges to other departments	-	-	-	-	-	-
	281	8,458	8,739	620	11,716	12,336

Operating income includes rental income and service charges from Minor Occupiers, licence fees for the administration of the Consumer Credit Act 1974, fees charged for mergers under the Fair Trading Act 1973 and Enterprise Act 2002 and Competition Act 1998 penalties.

Operating income not appropriated in aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 7). In 2003-2004, all operating income not classified as A-in-A was within public expenditure.

Non operating income of £13K is surrenderable to the Consolidated Fund.

**6. Administration cost limits (see also note 1.8)**

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

	2003-2004		2002-2003	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Total Resources	47,333	52,608	44,129	49,062

**7. Reconciliation of net operating cost to control total and net resource outturn**

	2003-2004	2002-2003
	£000	£000
Net operating costs	40,127	31,793
Non-A-in-A operating income	8,458	11,716
Net resource outturn	48,585	43,509

Net operating cost is the total expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the OFT's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

**8. Analysis of net resource outturn and net operating cost by function**

	2003-2004				2002-2003		
	Admin	Other	A-in-A	Net Total	Estimate	Net Total	Prior year
	£000	current	£000	£000	£000	Outturn	outturn
	£000	£000	£000	£000	£000	£000	£000
Resource Outturn	47,333	1,533	281	48,585	54,375	(5,790)	43,509
Income payable to the Consolidated Fund				(8,458)			(11,716)
Net operating cost				40,127			31,793

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)

**9. Analysis of capital expenditure, financial investment and associated A in A**

	Capital	Loans, etc.	A-in-A	Net total
	expenditure			
	£000	£000	£000	£000
Request for Resources 1	978	-	-	978
<b>Total 2003-04</b>	978	-	-	978
<b>Total 2002-03</b>	1,990	-	-	1,990

## resource accounts

### 10. Fixed assets

#### Tangible Fixed Assets

	Information Technology	Building Improvements	Furniture and Fittings	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2003	12,204	2,994	1,743	16,941
Additions	664	-	189	853
Disposals	(162)	-	(28)	(190)
Revaluation	274	48	30	352
Devaluation	(77)	-	-	(77)
At 31 March 2004	12,903	3,042	1,934	17,879
Depreciation				
At 1 April 2003	7,274	1,012	457	8,743
Charged in year	964	331	193	1,488
Disposals	(154)	-	(9)	(163)
Depreciation on Indexation	74	20	15	109
At 31 March 2004	8,158	1,363	656	10,177
Net book value at 31 March 2004	4,745	1,679	1,278	7,702
Net book value at 31 March 2003	4,930	1,982	1,286	8,198

#### Intangible Fixed Assets

	Software Licences	Total
	£000	£000
Cost or valuation		
At 1 April 2003	657	657
Additions	125	125
Revaluation	23	23
At 31 March 2004	805	805
Depreciation		
At 1 April 2003	133	133
Charged in year	107	107
Depreciation on Indexation	7	7
At 31 March 2004	247	247
Net book value at 31 March 2004	558	558
Net book value at 31 March 2003	524	524

### 11. Movements in working capital other than cash

	2003-2004	2002-2003
	£000	£000
For Schedule 4:		
(Decrease)/increase in debtors	(828)	(2,654)
Decrease/(increase) in creditors	114	3,250
	(714)	596
Changes in capital creditors	-	444
Increase in CFER deferred income	350	209
Decrease/(increase) in CFER debtors	179	2,212
Transitional adjustment	-	15
Schedule 1	(185)	3,476

**12. Debtors**

	2003-2004	2002-2003
	£000	£000
Amounts falling due within one year:		
Trade debtors	84	123
Deposits and advances	139	1,012
Other debtors	5	2
Value Added Tax	697	537
Prepayments and accrued income	1,448	1,527
	2,373	3,201

Included within prepayments and accrued income is £235,000 (2002-03: £415,000) that will be due to the Consolidated Fund once the debts are collected.

**13. Cash at bank and in hand**

	2003-2004	2002-2003
Note	£000	£000
Balance at 1 April	5,870	3,844
Net change in cash balances	(3,941)	2,026
Balance at 31 March	1,929	5,870

The Office of HM Paymaster General (OPG) provides a current account banking service. The following balances were held at 31 March:

Balances at OPG	1,905	5,839
Cash in hand	24	31
	1,929	5,870

The balance at 31 March comprises:

Amounts issued from the Consolidated Fund for supply but not spent at year end		172	67
Consolidated Fund extra receipts received and deferred	14	1,062	712
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund		695	5,091
		1,929	5,870

**14. Creditors: amounts falling due within one year**

	2003-2004	2002-2003
	£000	£000
Trade creditors	1,760	2,576
Other creditors	11	22
Accruals and deferred income	3,007	2,292
Amounts issued from the consolidated fund for supply but not spent at the year end	172	67
Consolidated fund extra receipts received and receivable and other due to be paid to the consolidated fund	930	5,505
	5,880	10,462

Included within accruals and deferred income is £1,106,119 of deferred income of which £1,062,119 (2002-03 £712,000) relates to amounts received for surrender to the Consolidated Fund.

**15. Provisions for liabilities and charges (see also notes 1.11 - 1.13)**

	Early retirement commitments	Pensions of former Directors General	Building Refurbishment Provision	Other Provisions	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2003	272	995	1,956	1,093	4,316
Provided in year	68	90	270	-	428
Provisions not required written back	-	-	-	(578)	(578)
Provisions utilised in the year	(109)	(71)	-	(90)	(270)
Unwinding of discount	-	-	171	-	171
Balance at 31 March 2004	231	1,014	2,397	425	4,067
Expected timing of cash flows					
Less than one year	112	70	-	425	607
Between one and five years	119	281	-	-	400
After five years	-	663	2,397	-	3,060
	231	1,014	2,397	425	4,067

## resource accounts

### 15. continued

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 two new early retirees during the year (2002-03: Three).

b) The pensions provision is in respect of unfunded pension liabilities which fall to the OFT for the previous Directors General and the current Chairman.

The financial assumptions used in the calculation of the liability as at 31 March 2004 are as follows:

- An investment return in excess of price increases of 3.5% p.a.
- An investment return in excess of earnings increases of 3.5% p.a.
- The gross rate of return is assumed to be 7% p.a. although this assumption has a minor impact on the calculation of the liability.
- In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 3.4% p.a. and an allowance for price inflation of 3.4% p.a.

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

	£000
Current service cost	27
Cost of interest	58
Actuarial loss	5
Benefits payable	(71)
Increase in provision	19

c) The building refurbishment provision relates to end of lease liabilities for Fleetbank House. The lease is due to expire in 2009.

d) The other provision is the best estimate we consider required in respect of complaints being considered by the Ombudsman's office which may result in payments to third parties. We are unable to determine when this provision may crystallise.

### 16. Reconciliation of net operating cost to changes in general fund

	2003-2004 £000	2002-2003 £000
Net operating cost for the year (Schedule 2)	(40,127)	(31,793)
Income not appropriated in aid payable to Consolidated Fund	(8,458)	(11,716)
Non operating income surrenderable to the Consolidated Fund	(13)	-
	(48,598)	(43,509)
Net parliamentary funding	47,917	42,482
Transferred to general fund of realised element of revaluation reserve (note 17)	65	88
Non-cash charges:		
Cost of capital	79	166
Auditors remuneration	50	44
	129	210
CFERs received and paid over		
Amounts due from/(to) the Consolidated Fund in respect of supply	(172)	(67)
Settlement of previous year creditor for cash unspent	67	3,005
Other movements	-	3
Net increase/(decrease) in general fund	(592)	2,212
General fund at 1 April	2,506	294
General fund at 31 March (Schedule 3)	1,914	2,506

### 17. Revaluation Reserve

	2003-2004 £000	2002-2003 £000
Balance at 1 April	509	369
Arising on revaluation during the year (net)	257	228
Transferred to general fund in respect of realised element of revaluation reserve	(65)	(88)
Balance at 31 March	701	509

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

### 18. Capital commitments

	2003-2004 £000	2002-2003 £000
Contracted capital commitments at 31 March 2004 for which no provision has been made	-	8

**19. Commitments under operating leases**

	2003-2004		2002-2003	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
At 31 March 2004 the department was committed to making the following payments during the next year in respect of operating leases expiring:				
Within one year	-	50	-	18
Between two and five years	-	91	-	101
After five years	4,364	-	4,328	-
	4,364	141	4,328	119

**20. Other commitments**

The department has entered into non-cancellable contracts (which are not operating leases) totalling £260,524 as at 31 March 2004 (2002-03 £23,867).

**21a Contingent assets and liabilities reported under FRS 12**

The OFT considers that there are no additional liabilities beyond those already provided for claims, which can be reasonably estimated. (2002-03:£nil) Decisions with penalties totalling £44m relating to infringements under the Competition Act 1998 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.

**21b Contingent liabilities 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 December 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.

**22. Related-party transactions**

The OFT collected £258k in rent and service charges from the Minor Occupier (Office of the Immigration Services Commissioner – OISC) in respect of rent and service charges paid by them to occupy part of the OFT's leasehold building. This income was treated as an Appropriation-in-Aid.

The OISC vacated the premises on 30th November 2003.

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.

**23. Memorandum Trading Accounts**

Income from administration of the Consumer Credit Act 1974 and fees for mergers under the Fair Trading Act 1973 and Enterprise Act 2002 is provided solely for Treasury purposes and is not disclosed for the purposes of SSAP 25 segmental reporting. The Memorandum Trading Accounts are a mechanism for determining the extent of cost recovery via fees. The costs and income associated with these activities in 2003-04 are shown below:

	2003-2004		2002-2003	
	Total Cost £000	Total Income £000	Net Surplus /(Deficit) £000	Net Surplus /(Deficit) £000
Fees for administration of the Consumer Credit Act 1974	5,867	5,932	65	(666)
Fees for mergers under the Fair Trading Act 1973 and Enterprise Act 2002	15,682	962	(14,720)	(4,466)
Total	21,549	6,894	(14,655)	(5,132)

The costs relating to fees for mergers include attributable costs from the Competition Commission and from the Department of Trade and Industry.

## resource accounts

### 24. 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 2004, 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 2004 of £1,929,110. This is cash in hand and at bank as reported in the balance sheet. All cash balances are held in sterling.

#### Financial liabilities

The OFT has the following financial liabilities at 31 March 2004 denominated in sterling:

- Non-discounted provisions for early retirement, former Directors General and claims totalling £1,670k.
- Refurbishment provisions discounted by the 3.5 per cent government rate to their net present value.

The maturity profile of the OFT's financial liabilities at 31 March 2003 was as follows:

	£000
In one year or less or on demand	607
In more than one year but not more than two years	133
In more than two years but not more than five years	267
In more than five years	3,060
	4,067

### 25. Deferred Income

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

	2003-2004	2002-2003
	£000	£000
Fees for administration of the Consumer Credit Act 1974	1,047	700
Fees for mergers under the Fair Trading Act 1973 and Enterprise Act 2002	15	12
Fees payable to Consolidated Fund	1,062	712
Competition Act 1998 fees	44	78
	1,106	790

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

### 26. Actual outturn – resources and cash

#### Actual outturn – resources

Request for Resource 1: Net total outturn £48,585,116.65. Actual amount of saving compared with Estimate £5,789,883.35.

#### Actual outturn – cash

Net cash requirement: Outturn net cash requirement £47,812,008.15, which is £7,264,991.85 less than the Estimate.

The actual cash surrenderable to the Consolidated Fund is £1,757,087.10.

Total receipts are £8,999,967.30.

Included within receipts is deferred income of £1,062,118.80 see note 25.

### 27. Important events which have occurred since Financial Year End

There were no significant events which occurred since the Financial Year End.