

Contents

	Page
Annual Report	107
Statement of Accounting Officers responsibilities	110
Statement on Internal Control	111
The Certificate and Report of the Comptroller and Auditor General to the House of Commons	113
The Accounting Schedules	
Schedule 1 – Summary of Resource Outturn	115
Schedule 2 – Operating Cost Statement and Statement of Recognised Gains and Losses	116
Schedule 3 – Balance Sheet	117
Schedule 4 – Cash Flow Statement	118
Schedule 5 – Resources by Departmental Aim and Objectives	119
Notes to the Resource Accounts	120

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 2005, which is published with these accounts.

Operating and Financial Review

The activities of the OFT are funded by parliamentary vote. In 2004-05 the OFT had a gross budget allocation of £56.2m for administration and programme expenditure and £1.4m for capital expenditure. During the year the OFT incurred gross expenditure of £51.7m 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 £0.9m in capital expenditure in the year in respect of furniture, office equipment, IT hardware, software and IT software licences.

The OFT had income of £7.5m 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 had income of £1.9m relating to Competition Act 1998 (CA98) infringements. All this income is surrendered to the Consolidated Fund.

The net cash requirement variation of £3.7m consists of an overall underspend of £3.2m on administrative expenditure plus an underspend on capital of £0.5m.

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 Sir 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 18 and 19 of the Annual Report.

For the financial year 2004-2005, 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 2004-05 the committee comprised two independent members and Sir 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. 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 2005 the Audit Committee comprised three independent members (Nigel Matthews, Sir Geoffrey Owen and Tim Head), one board member (Lord Blackwell) and one executive member (Christine Wade). It 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 ground 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 its 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 2004-05 the OFT paid 99 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.



Sir John Vickers

Chairman and Accounting Officer for the OFT
10 June 2005

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 board has overall responsibility for determining OFT's system of internal control and for reviewing its effectiveness. Our Operations Management Group advises the board and implements policies on risk management and internal control. Divisional directors ensure that the OFT's risk policy and strategy are implemented in their divisions and they advise the board in monthly and quarterly reports on an exception basis.

The Audit Committee advises me on the adequacy of audit arrangements and on assurances received in respect of risk management and internal control.

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 2005 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 continued to hold risk management workshops during the year to add risk tolerances and key risk indicators to our risk registers, and to enable staff to assess and manage risk in a way that is 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;
- the Audit Committee comprising three independent members, one board member and one executive member which meets 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 independent internal auditors, Mazars, 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 been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board and by the Audit Committee which reviews, and where it considers necessary, advises on mechanisms for the assessment and management of risk.

I receive annual reports from the Chairman of the Audit Committee and the Head of Internal Audit. 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. No significant internal control problems have arisen.



Sir John Vickers

Chairman and Accounting Officer of the OFT
10 June 2005

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 115 to 132 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 120 to 121.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 110, 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 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 107 to 109 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 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 111 to 112 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 2005, 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 Bourn

National Audit Office
Controller and Auditor General
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP
20 June 2005

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

Schedule 1

Summary of Resource Outturn

for the year ended 31 March 2005

	2004-2005						2003-2004	
	Estimate			Outturn			Net total Outturn compared with estimate saving/(excess)	Prior-year Outturn
	Gross expenditure	A-in-A	Net Total	Gross expenditure	A-in-A	Net Total		
£000	£000	£000	£000	£000	£000	£000	£000	
RfR : Advancing and safeguarding the economic interests of UK consumers								
Total Resources (see notes 5 and 8)	56,205	309	55,896	51,678	-	51,678	4,218	48,585
Non-operating cost A-in-A	-	-	-	-	-	-	-	-
Net Cash Requirement	-	-	54,539	-	-	50,840	3,699	47,812

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	2004-2005 Forecast		2004-2005 Outturn	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Total	4	6,225	<i>6,225</i>	9,454	<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 2005-06 the national launch to consumers of the Consumer Codes Approval Scheme. Another contributing factor is the delay in recruitment of staff.

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

The net cash requirement variation of £3.7m consists mainly of the overall underspend on administrative expenditure.

Reconciliation of Resources to Cash Requirement

	Note	£000	£000	£000	£000
Net Total Resources		55,896	51,678	4,218	48,585
Capital:					
Acquisition of fixed assets (tangible and intangible)	10	1,398	898	500	978
Investments	1.6	-	-	-	-
Non-operating A-in-A:					
Proceeds of fixed asset disposals		-	-	-	-
Accruals adjustments:					
Non-cash items	3	(3,056)	(3,268)	212	(1,836)
Changes in working capital other than cash	11	206	1,340	(1,134)	(185)
Changes in creditors falling due after more than one year		-	-	-	-
Use of provision	15	95	192	(97)	270
Net Cash Requirement (Schedule 4)		54,539	50,840	3,699	47,812

The notes on pages 120 to 132 form part of these accounts.

resource accounts

Schedule 2

Operating Cost Statement

for the year ended 31 March 2005

	Note	2004-2005	2003-2004
		£000	£000
Administration Costs:			
<i>Request for Resources 1</i>			
Staff Costs	2	30,182	28,244
Other Administration Costs	3	19,244	19,089
		<u>49,426</u>	<u>47,333</u>
Gross Administration Costs		49,426	47,333
Operating Income	5	(9,447)	(8,739)
Net Administration Costs		39,979	38,594
Programme Costs			
<i>Request for Resources 1</i>			
Expenditure	1.9 & 3	2,252	1,533
Income		-	-
Net Programme Costs		2,252	1,533
Net Operating Cost		42,231	40,127
Net Resource Outturn		51,678	48,585

Statement of Recognised Gains and Losses for the year ended 31 March 2005

		2004-2005	2003-2004
		£000	£000
Net gain on revaluation of tangible fixed assets		46	242
Net loss on revaluation of intangible fixed assets		3	15
Actuarial loss	15	(115)	(5)
Receipt of donated assets	17	10	-
Total gain/(loss) since last financial statements		<u>(56)</u>	<u>252</u>

All income and expenditure are derived from continuing operations.

The notes on pages 120 to 132 form part of these accounts.

Schedule 3

Balance Sheet

as at 31 March 2005

	Note	as at 31 March 2005		as at 31 March 2004	
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	10	6,916		7,702	
Intangible assets	10	<u>452</u>		<u>558</u>	
			7,368		8,260
Current Assets					
Debtors	12	2,976		2,373	
Cash at bank and in hand	13	<u>2,711</u>		<u>1,929</u>	
		5,687		4,302	
Creditors (due within one year)					
	14	(5,925)		(5,880)	
Net Current Liabilities					
			(238)		(1,578)
Provisions for Liabilities and Charges	15	<u>(4,166)</u>		<u>(3,053)</u>	
			(4,166)		(3,053)
Total Assets less Total Liabilities before Pension Liabilities					
			<u>2,964</u>		<u>3,629</u>
Pension Liabilities	15	<u>(1,156)</u>		<u>(1,014)</u>	
			(1,156)		(1,014)
Total Assets less Total Liabilities after Pension Liabilities					
			<u>1,808</u>		<u>2,615</u>
Taxpayers' Equity					
General Fund	16		1,126		1,914
Revaluation reserve	17		674		701
Donated asset reserve	17		8		-
			<u>1,808</u>		<u>2,615</u>



Sir John Vickers
Chairman and Accounting Officer
10 June 2005

The notes on pages 120 to 132 form part of these accounts.

Schedule 4

Cash Flow Statement

for the year ended 31 March 2005

		2004-2005	2003-2004
		£000	£000
Net cash outflow from operating activities (A)		(40,946)	(37,847)
Capital expenditure and financial investment (B)		(893)	(965)
Payments to the Consolidated Fund		(9,485)	(13,046)
Financing (C)		52,106	47,917
Increase/(Decrease) in cash in the period		782	(3,941)
	Note	£000	£000
(A) Reconciliation of operating cost to operating cash flows			
Net operating cost		42,231	40,127
Adjust for non-cash transactions	3	(3,268)	(1,836)
Adjustments for movements in working capital other than cash	11	1,791	(714)
Adjust for transfer from provision	15	192	270
Net cash outflow from operating activities		40,946	37,847
(B) Analysis of capital expenditure and financial investment			
Purchase of tangible fixed assets	10	885	853
Proceeds of disposal of fixed assets		(5)	(13)
Purchase of intangible fixed assets	10	13	125
Net cash outflow from investing activities		893	965
(C) Analysis of financing and reconciliation of the net cash requirement			
From the Consolidated Fund (Supply)		52,106	47,917
Net financing		52,106	47,917
(Increase)/Decrease in cash		(782)	3,941
Net cash flows other than financing		51,324	51,858
Adjust for payments and receipts not related to Supply			
Consolidated Fund Extra Receipts received and not paid over		1,273	1,757
Consolidated Fund Extra Receipts received relating to the prior year and paid over		(1,757)	(5,803)
Net cash requirement (Schedule 1)		50,840	47,812

Amount of grant actually issued to support the net cash requirement = £52,106,022.

The notes on pages 120 to 132 form part of these accounts.

Schedule 5

Statement of Resources by Departmental Aim and Objectives

for the year ended 31 March 2005

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	2004-2005			2003-2004		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
1. Competition Enforcement. To make sure that competition works well in markets for goods and services so as to make markets more efficient and benefit consumers	15,123	3,179	11,944	15,016	2,625	12,391
2. Consumer Regulation Enforcement. 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.	15,160	6,268	8,892	12,616	5,992	6,624
3. Markets & Policy Initiatives. 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.	9,281	-	9,281	8,022	46	7,976
4. Communications. 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.	12,114	-	12,114	13,212	76	13,136
Net operating costs	<u>51,678</u>	<u>9,447</u>	<u>42,231</u>	<u>48,866</u>	<u>8,739</u>	<u>40,127</u>

Our methodology for preparing Schedule 5 is set out in accounting policy note 1.16.

The notes on pages 120 to 132 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 2004-05 *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 £5,000. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into a working condition. All tangible fixed assets are re-analysed to current value 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 Donated assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the operating cost statement.

1.5 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £5,000 or more is incurred. Except where reliable evidence of current value cannot be readily ascertained, these are 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.

1.6 Investments

The OFT has no investments.

1.7 Research and development

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

1.8 Operating income

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

Competition Act 1998 penalties

Income is recognised once the period for making an appeal in respect of the penalty has expired and no appeal has been made or, where an appeal is made, once it has been determined.

1.9 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administrative cost limit, and that operating income which is not. Programme costs relate to non-recurrent legal fees. The classification of expenditure and income as administration or programme follows the definition of administration costs set by HM Treasury.

1.10 Capital charge

A charge, reflecting the cost of capital utilised by the OFT, is included in operating costs. The charge is calculated at the government's standard rate of 3.5 per cent in real terms on the average carrying amount of all assets less liabilities, except for donated assets, cash balances on non-interest bearing OPG accounts and on balances with the Consolidated Fund where the interest rate is nil.

1.11 Foreign exchange

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

1.12 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in 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.

1.13 Early departure costs

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

1.14 Provisions and Contingencies

- a) The OFT provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discounted rate of 3.5 per cent in real terms. Financing charges in the Operating Cost Statement in respect of end of lease provisions include adjustments to amortise one year's discount rate and restate liabilities to current price levels. Related contingent liabilities and contingent assets are disclosed in accordance with FRS 12.
- b) In addition to contingent liabilities disclosed in accordance with FRS 12, the OFT discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. For the OFT, these comprise items over £100,000 (for which there is no specific statutory authority) that do not arise in the normal course of business and which are reported to Parliament by departmental minute prior to the Department entering into the arrangement.

1.15 Taxation

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

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

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

1.16 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.

1.17 Operating leases

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

1.18 Comparative amounts

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

1.19 Derivatives and other financial instruments

The OFT has no borrowings and relies primarily on voted funds from Parliament for its cash requirements and is therefore not exposed to liquidity risk. It also has no material deposits and all material assets and liabilities are denominated in sterling so it is not exposed to interest rate or currency risk. See note 24.

resource accounts

2. Staff-related costs and staff numbers

A. Staff costs consist of:

	2004-2005			2003-2004
	Total	Permanently employed		Total
		staff	Others	
	£000	£000	£000	£000
Wages and Salaries	24,921	23,565	1,356	23,215
Social security costs	2,039	2,039	-	1,824
Pension costs	3,332	3,332	-	3,219
Pension of retired members (non-cash as per FRS 17)	26	26	-	-
Sub total	30,318	28,962	1,356	28,258
Less recoveries in respect of outward secondments	(136)	(136)	-	(14)
Total net costs*	30,182	28,826	1,356	28,244

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

The Principal Civil Service Pension Schemes (PCSPS) to which most of the department's employees are members are unfunded multi-employer defined benefit schemes, but the OFT is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-2005, employer contributions of £3,286,814.56 were payable to the PCSPS (2003-04: £3,218,819) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates 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 £32,454 (2003-04: £31,312) 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 (2003-04: 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 £3,640, 0.8 per cent (2003-04: £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:

	2004-2005			2003-2004
	Total	Number		Number
		Permanently employed	Others	
		staff		
Competition Enforcement	220	215	5	231
Consumer Regulation Enforcement	307	289	18	287
Markets & Policy Initiatives	116	110	6	109
Communications	74	67	7	78
Total	717	681	36	705

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.

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

2004-2005	Salary, including performance pay (£K)	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 31/3/04 (nearest £K)	CETV at 31/3/05 (nearest £K)	Real increase in CETV after adjustment for inflation and changes in market investment factors (nearest £K)	Employee contributions and transfers in (£K)
Mr John Vickers Chairman	195-200	–	2.5-5 plus lump sum 7.5-10	10-15 plus lump sum 30-35	113	159	33	0-2.5
Miss Penny Boys Executive Director	120-125	–	0-2.5 plus lump sum 5-7.5	50-55 plus lump sum 155-160	855	928	31	0-2.5
Mrs Christine Wade Director Consumer Regulation Enforcement Division	85-90	–	2.5-5	35-40	424	499	45	2.5-5
Mr Vincent Smith Director Competition Enforcement Division	85-90	–	0-2.5 plus lump sum 0-2.5	10-15 plus lump sum 25-30	114	137	13	2.5-5
Miss Pat Edwards Director Legal Division (until 31 May 2004)	15-20	–	0-2.5 plus lump sum 0-2.5	45-50 plus lump sum 140-145	899	907	-	0-2.5
Mr Brian McHenry Director Legal Division (from 1 July 2004)	70-75	–	2.5-5 plus lump sum 7.5-10	35-40 plus lump sum 110-115	571	645	43	2.5-5
Mr David Fisher* Director Resources & Services Division	65-70	–	0-2.5	15-20	168	193	12	0-2.5
Mr Jonathan May Director Markets & Policy Initiatives Division	90-95	–	0-2.5 plus lump sum 2.5-5	35-40 plus lump sum 105-110	555	610	20	2.5-5
Mr Mike Ricketts Director Communications Division	80-85	–	0-2.5 plus lump sum 2.5-5	30-35 plus lump sum 95-100	539	586	18	0-2.5
<i>Non-Executive Board Members</i>								
Mr Allan Asher	15-20	–	see note (i)					
Lord Norman Blackwell	15-20	–	see note (i)					
Mrs Christine Farnish	15-20	–	see note (i)					
Mr Richard Whish	15-20	–	see note (i)					
Mrs Rosalind Wright	25-30	–	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 2005.

resource accounts

	Salary (as defined above)	Benefits in Kind
	£000	£000
2003-2004		
Mr John Vickers Chairman	190-195	-
Miss Penny Boys Executive Director	110-115	-
Miss Caroline Banks (until 30 June 2003) Director Consumer Regulation Enforcement Division	20-25	-
Mrs Christine Wade (from 1 July 2003) Director Consumer Regulation Enforcement Division	60-65	-
Mrs Margaret Bloom (until 31 July 2003) Director Competition Enforcement Division	55-60	-
Mr Vincent Smith (from 1 August 2003) Director Competition Enforcement Division	55-60	-
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	80-85	-
Mr Mike Ricketts Director Communications Division	70-75	-
Non-Executive Board Members		
Mr Allan Asher	10-15	-
Lord Norman Blackwell	10-15	-
Mrs Christine Farnish	10-15	-
Mr Richard Whish	10-15	-
Mrs Rosalind Wright	45-50	-

The Chairman and former Directors General of the OFT are not members of the PCSPS but may be pensioned by analogy to that scheme thereby gaining benefits commensurate with their salary and service. For 2004-2005 payments totalling £73,253 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% of pensionable earnings for classic and 3.5% 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.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

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 contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in 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.

3(i) Non-staff administration costs

	2004-2005		2003-2004	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machines	123		122	
Other operating leases	4,366		4,363	
		4,489		4,485
Research expenditure		196		336
Non-cash items:				
Depreciation of fixed assets				
Tangible fixed assets	1,621		1,488	
Intangible fixed assets	122		107	
Released from the donated asset reserve	(2)		-	
Profit on disposal of fixed assets	(5)		14	
Cost of capital charge	46		79	
Auditor's remuneration and expenses	50		50	
Devaluation of IT Hardware	106		77	
Provision: Amounts provided for in year	158		428	
Amounts not required written back	-		(578)	
Unwinding of discount on provisions	146		171	
Total Non-Cash Costs		2,242		1,836
Other expenditure				
Rates	1,270		1,197	
Consultancies	3,210		2,742	
Training	936		997	
Publicity	1,401		1,394	
Maintenance	1,291		1,532	
Travel & subsistence	442		520	
Telecoms	504		394	
Events	456		406	
Publications	309		332	
Recruitment	252		505	
Other expenditure	2,246		2,413	
Total other expenditure		12,317		12,432
		19,244		19,089

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

	2004-2005	2003-2004
	£000	£000
Non-cash items:		
Provision: Amounts provided for in year	1,000	-
Other expenditure	1,252	1,533
Total programme expenditure	2,252	1,533

Total programme expenditure of £2,252k (2003-2004: £1,533k) comprises litigation costs of £2,245k and expert witnesses costs of £7k.

3(iii) Reconciliation of non-cash costs

	Note	2004-2005	2003-2004
Staff costs	2A	26	-
Non-staff administration costs	3(i)	2,242	1,836
Programme Costs	3(ii)	1,000	-
		3,268	1,836

resource accounts

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):

	2004-2005 Forecast		2004-2005 Outturn	
	Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts - excess A-in-A	-	-	-	-
Non-operating income and receipts - excess A-in-A	-	-	7	5
Subtotal	-	-	7	5
Other operating income and receipts not classified as A-in-A	6,225	6,225	9,447	8,995
Other non-operating income and receipts not classified as A-in-A	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
Total	6,225	6,225	9,454	9,000

5. Income and appropriations in aid

	2004-2005			2003-2004		
	Appropriated in-Aid £000	Not Appropriated in-Aid	Total £000	Appropriated in-Aid £000	Not Appropriated in-Aid	Total £000
		£000			£000	
Operating income analysed by classification and activity, is as follows:						
Administration income:						
Allowable within administration cost limit	-	-	-	281	-	281
Fees and charges to external customers	-	9,447	9,447	-	8,458	8,458
Fees and charges to other departments	-	-	-	-	-	-
	-	9,447	9,447	281	8,458	8,739

Operating income includes licence fees for the administration of the Consumer Credit Act 1974 and fees charged for mergers under the Fair Trading Act 1973 and Competition Act 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 2004-2005, all operating income not classified as A-in-A was within public expenditure.

Non operating income of £7k 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:

	2004-2005		2003-2004	
	Outturn £000	Limits £000	Outturn £000	Limits £000
Total Resources	49,426	53,632	47,333	52,608

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

	2004-2005 £000	2003-2004 £000
Net operating costs	42,231	40,127
Non-A-in-A operating income	9,447	8,458
Net resource outturn	51,678	48,585

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

	2004-2005			2003-2004			Net Total Outturn compared to Estimate	Prior year outturn
	Admin	Other current	Gross resource expenditure	A-in-A	Net Total	Estimate		
	£000	£000	£000	£000	£000	£000	£000	£000
Resource Outturn	49,426	2,252	51,678	-	51,678	55,896	(4,218)	48,585
Income payable to the Consolidated Fund					(9,447)			(8,458)
Net operating cost					42,231			40,127

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 expenditure	Loans, etc.	A-in-A	Net total
	£000	£000	£000	£000
Request for Resources 1	898	-	-	898
Total 2004-05	898	-	-	898
Total 2003-04	978	-	-	978

10. Fixed assets

Tangible Fixed Assets

	Information Technology	Building Improvements	Furniture and Fittings	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2004	12,903	3,042	1,934	17,879
Additions	473	19	393	885
Donations	10	-	-	10
Disposals	(611)	-	(8)	(619)
Revaluation	47	(21)	(15)	11
Devaluation	(106)	-	-	(106)
At 31 March 2005	12,716	3,040	2,304	18,060
Depreciation				
At 1 April 2004	8,158	1,363	656	10,177
Charged in year	1,059	334	228	1,621
Disposals	(611)	-	(8)	(619)
Revaluation	(20)	(12)	(3)	(35)
At 31 March 2005	8,586	1,685	873	11,144
Net book value at 31 March 2005	4,130	1,355	1,431	6,916
Net book value at 31 March 2004	4,745	1,679	1,278	7,702

Intangible Fixed Assets

	Software Licences	Total
	£000	£000
Cost or valuation		
At 1 April 2004	805	805
Additions	13	13
Revaluation	5	5
At 31 March 2005	823	823
Depreciation		
At 1 April 2004	247	247
Charged in year	122	122
Revaluation	2	2
At 31 March 2005	371	371
Net book value at 31 March 2005	452	452
Net book value at 31 March 2004	558	558

resource accounts

11. Movements in working capital other than cash

	2004-2005	2003-2004
	£000	£000
Increase/(Decrease) in debtors	603	(828)
(Increase)/Decrease in creditors	(45)	4,582
Increase/(Decrease) in Consolidated Fund creditors	1,233	(4,468)
Schedule 4	1,791	(714)
(Decrease)/Increase in CFER deferred income	(401)	350
(Increase)/Decrease in CFER debtors	(50)	179
Schedule 1	1,340	(185)

12. Debtors

	2004-2005	Restated 2003-2004
	£000	£000
Amounts falling due within one year:		
Trade debtors	162	84
Deposits and advances	139	139
Other debtors	302	240
Value Added Tax	584	697
Prepayments and accrued income	1,789	1,213
	2,967	2,373

Included within other debtors is £285,166 (2003-04: 235,000) that will be due to the Consolidated Fund once the debts are collected.

13. Cash at bank and in hand

	Note	2004-2005	2003-2004
		£000	£000
Balance at 1 April		1,929	5,870
Net change in cash balances		782	(3,941)
Balance at 31 March		2,711	1,929

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

Balances at OPG		2,689	1,905
Cash in hand		22	24
		2,711	1,929
The balance at 31 March comprises:			
Amounts issued from the Consolidated Fund for supply but not spent at year end		1,438	172
Consolidated Fund extra receipts received and deferred	14	661	1,062
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund		612	695
		2,711	1,929

14. Creditors: amounts falling due within one year

	2004-2005	2003-2004
	£000	£000
Trade creditors	1,775	1,760
Other creditors	19	11
Accruals and deferred income	1,796	3,007
Amounts issued from the consolidated fund for supply but not spent at the year end	1,438	172
Consolidated fund extra receipts due to be paid to the consolidated fund		
received	612	695
receivable	285	235
	5,925	5,880

Included within accruals and deferred income is £660,695 of deferred income which relates to amounts received for surrender to the Consolidated Fund. (2003-04: £1,062,119).

15. Provisions for liabilities and charges (see also notes 1.12 - 1.14)

	Early retirement commitments	Building Refurbishment Provision	Other Provisions	Total
	£000	£000	£000	£000
Balance at 1 April 2004	231	2,397	425	3,053
Provided in year	86	-	1,000	1,086
Provisions utilised in the year	(119)	-	-	(119)
Unwinding of discount	-	146	-	146
Balance at 31 March 2005	198	2,543	1,425	4,166
Expected timing of cash flows				
Less than one year	84	-	1,425	1,509
Between one and five years	114	2,543	-	2,657
After 5 years	-	-	-	-
	198	2,543	1,425	4,166

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 (2003-04: Two).

b) The building refurbishment provision relates to end of lease liabilities for Fleetbank House. The lease is due to expire in 2009. This provision has been discounted at the Treasury rate of 3.5% (2003-04: 3.5%).

c) Included within other provisions is £425k relating to 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.

The remaining £1m relates to claims from 3rd parties.

d) Pension provisions for the year ending 31 March 2005 are:

	Total
	£000
Balance at 1 April 2004	1,014
Provided in year	215
Provisions utilised in the year	(73)
Unwinding of discount	-
Balance at 31 March 2005	1,156
Expected timing of cash flows	
Less than one year	73
Between one and five years	292
After 5 years	791
	1,156

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

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2005.

The financial assumptions used in the calculation of the liability as at 31 March 2005 are as follows:

- An investment return in excess of price increases of 3.5% p.a. (2003-04: 3.5% p.a.)
- An investment return in excess of earnings increases of 3.5% p.a. (2003-04: 3.5% p.a.)
- The gross rate of return is assumed to be 6.1% p.a. although this assumption has a minor impact on the calculation of the liability. (2003-04: 7% p.a.)
- In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 2.5% p.a. and an allowance for price inflation of 2.5% p.a. (2003-04: 3.4% p.a.)

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

	£000
- Current service cost (net of Employee Contributions)	28
- Employee Contributions	2
- Interest Cost	70
- Actuarial Losses	115
	215
- Benefits Paid	(73)
Increase in provision	142

resource accounts

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

	2004-2005	2003-2004
	£000	£000
Net operating cost for the year (Schedule 2)	(42,231)	(40,127)
Income not appropriated in aid payable to Consolidated Fund	(9,447)	(8,458)
Non operating income surrenderable to the Consolidated Fund	(7)	(13)
	(51,685)	(48,598)
Net parliamentary funding	52,106	47,917
Transferred to general fund of realised element of revaluation reserve (note 17)	76	65
Consolidated Fund creditor for cash unspent	(1,438)	(172)
Settlement of previous year creditor for cash unspent	172	67
Actuarial Loss	(115)	-
Non-cash charges:		
Cost of capital	46	79
Auditors remuneration	50	50
	96	129
Net increase/(decrease) in general fund	(788)	(592)
General fund at 1 April	1,914	2,506
General fund at 31 March (Schedule 3)	1,126	1,914

17. Reserves

	Revaluation Reserve	
	2004-2005	2003-2004
	£000	£000
Balance at 1 April	701	509
Arising on revaluation during the year (net)	49	257
Transferred to general fund in respect of realised element of revaluation reserve	(76)	(65)
Balance at 31 March	674	701

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

	Donated Asset Reserve	
	2004-2005	2003-2004
	£000	£000
Balance at 1 April	-	-
Additions during the year	10	-
Revaluations	-	-
Release to the Operating Cost statement	(2)	-
Balance at 31 March	8	-

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

18. Capital commitments

	2004-2005	2003-2004
	£000	£000
Contracted capital commitments at 31 March 2005 for which no provision has been made	-	-

19. Commitments under operating leases

	2004-2005		2003-2004	
	Land and Buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
At 31 March 2005 the department was committed to making the following payments during the next year in respect of operating leases expiring:				
Within one year	-	2	-	50
Between two and five years	4,366	76	-	91
After five years	-	-	4,364	-
	4,366	78	4,364	141

20. Other commitments

The department has no non-cancellable contracts (which are not operating leases) as at 31 March 2005 (2003-04: None (restated)).

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. (2003-04: £nil)
Since the year end the OFT received £7.3m relating to infringements under the 1998 Competition Act (see note 26). Decisions with penalties totalling £30.9m relating to infringements under the 1998 Competition Act are currently the subject of appeals to the Competition Appeal Tribunal or to the Court of Appeal.

Competition Act penalties imposed, once all routes of appeal have been exhausted within the UK, are collected by the OFT and passed to the Consolidated Fund as Consolidated Fund Extra Receipts.

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 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 2004-05 are shown below:

	Total Cost	Total Income	2004-2005 Net Surplus /(Deficit)	2003-2004 Net Surplus /(Deficit)
	£000	£000	£000	£000
Fees for administration of the Consumer Credit Act 1974	7,026	6,268	(758)	65
Fees for mergers under Fair Trading Act 1973 and Enterprise Act 2002	11,759	1,270	(10,489)	(14,720)
Total	18,785	7,538	(11,247)	(14,655)

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

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 2005 the OFT's net financial assets, excluding OPG cash balances and Consolidated Fund balances, were subject to the Treasury's rate of 3.5%.