Presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000

Office of Fair Trading

Resource Accounts 2005-06

LONDON: The Stationery Office
HC 1095

22 May 2006
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(For the year ended 31 March 2006)

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Annual Report

Introduction

These Resource Accounts have been prepared and published by the Office of Fair Trading (OFT). The Accounts have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. The Accounts demonstrate the resources that have been used to deliver the OFT's objectives. These Resource Accounts have been prepared in accordance with the guidance set out in the Government Financial Reporting Manual.

Nature of OFT's business and its Aims, Objectives and Activities

The Office of Fair Trading is an independent competition and consumer protection authority. For government accounting purposes, it is a non-ministerial government department. Our mission is to make markets work well for consumers. Our vision is of competitive, efficient, innovative and fair dealing markets where standards of consumer care are high, consumers are empowered and confident about making choices and where businesses comply with consumer and competition laws but are not overburdened by regulation. For further details of the OFT's aim, objectives and activities please read the OFT's Annual Report for the year ended 31 March 2006, which will be published in July 2006, and the Management Commentary which follows.

Board of the OFT and senior management team

The OFT is governed by the OFT Board. On 30 September 2005, Sir John Vickers stepped down from his role as the OFT's Chairman and Chief Executive after completing his term of appointment. Penny Boys CB was an executive board member until 30 November 2005. Since 1 October 2005, the OFT Board has been chaired by Philip Collins, who is an independent non-executive board member.

The other members of the Board are: John Fingleton (executive member) and five independent non-executives, Allan Asher, Lord Blackwell, Christine Farnish, Richard Whish and Rosalind Wright. All Board members were appointed by the Secretary of State for Trade and Industry.

The senior management team during the year comprised of all the Divisional Directors and the Executive Director/Chief Executive. The role of the senior management team is to assist the Chief Executive Officer in the day to day running of the business. It agrees operational and management policy of the OFT. Members during the year were:

Penny Boys CB:	Executive Director (until 30 November 2005)
John Fingleton:	Chief Executive Officer from 6 October 2005
Jonathan May:	Director Market Policy Initiatives Division
Brian McHenry:	Solicitor to the OFT
Mike Ricketts:	Director of Communications
Bart Smith:	Chief Operating Officer (from 11 April 2005)
Vincent Smith:	Director Competition Enforcement Division
Christine Wade:	Director Consumer Regulation Enforcement Division

For the financial year 2005-2006, apart from John Fingleton, the senior management team was composed 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. John Fingleton was appointed Chief Executive Officer by the Secretary of State for Trade and Industry from 6 October 2005 for a period of five years.

Details of remuneration can be found in the Remuneration Report detailed below.

A register of interests of the Board members can be found on the OFT website.

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. Supporting the Board, the OFT has a corporate structure with committees that have clear terms of reference.

Audit Committee

During the financial year ending 31 March 2006 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 was and is chaired by an independent member, Nigel Matthews. The National Audit Office, Internal Auditors, Chief Executive Officer, Chief Operating Officer and Finance Director attend by invitation.

The Audit Committee advises on all aspects of audit, corporate governance, risk management and internal control within the OFT. It reports to the Chief Executive Officer, in his role as Accounting Officer, and the OFT Board.

Equal Opportunities Policy (including that for employment of disabled people)

The OFT is an equal opportunity 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 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 2005-06 the OFT paid 100 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.

Health and Safety

The OFT recognises and accepts its legal responsibilities in relation to the health, safety and welfare of its employees and for all people using its premises. The OFT will comply with the Health and Safety at Work Act 1974 and all other legislation as appropriate.

Auditors

The Resource Accounts have been audited by the Comptroller and Auditor General, who has been appointed under statute and is responsible to Parliament. The cost of the audit (notional fee) was £50,000. The National Audit Office also reported to Parliament on our Competition Enforcement work. They received no remuneration from us for their non audit work.

Our Internal Audit was provided independently by Mazars LLP.

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

Management Commentary

The activities of the OFT are funded by Parliamentary Vote. In 2005-06 the OFT had a gross budget allocation of £57.6m for administration and programme expenditure and £2.1m for capital expenditure. During the year the OFT incurred gross expenditure of £54.8m on administration and programme expenditure in pursuit of its objectives as detailed in "The Statement of Operating Costs by Departmental Aim and Objectives".

The OFT also invested £1.9m in capital expenditure in the year in respect of furniture, office equipment, IT hardware, software, IT software licences and assets under construction.

The OFT received income of £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 £11.1m relating to Competition Act 1998 (CA98) infringements. The OFT also received £0.6m in respect of recovered legal costs. All this income is surrendered to the Consolidated Fund. In addition the OFT received income of £14k from the European Commission in respect of funding a Competition and Consumer day which the OFT retained as appropriation in aid.

The net cash requirement variation of £3.2m consists of an overall underspend of £2.9m on administrative expenditure plus an underspend on capital of £0.3m.

Operating Activity

Supporting self-regulation

We continued to support self-regulation by business through our Consumer Codes Approval Scheme (CCAS), under which we approve and promote effective codes of practice.

During the year, we approved and promoted codes operated by the Association of British Travel Agents and the Ombudsman for Estate Agents Company Limited. These codes will benefit millions of holidaymakers and users of estate agency services.

We also launched the CCAS nationally to consumers through a campaign to promote the 'OFT Approved code' logo. The campaign – our biggest ever – reached a total television audience of 3.5 million and a radio audience of 12 million, and included extensive advertising.

Enforcing consumer law

We worked closely with our partners in enforcing the rules that protect consumers against unfair trading. We encouraged businesses to comply by giving them guidance and the opportunity to cease suspected breaches, but took firm action against persistent or flagrant offenders.

We enjoyed particular success in putting a stop to a large number of harmful mass-marketed scams including bogus prize-draw mailings and misleading premium-rate telephone number promotions.

We also took wide-ranging action to protect consumers in credit markets. In just one example, an OFT investigation found that the charges imposed by credit card companies when cardholders default were in general too high and were likely to be considered unfair by a court for the purposes of unfair contract terms legislation. As a result, we announced that we expected credit card issuers to review their charges and amend them without undue delay.

In other key cases, Asda, Sainsbury, Tesco, Waitrose and Ocado agreed to give customers clearer information about online shopping pricing following our intervention. We acted after receiving complaints from consumers that the prices charged for groceries on delivery were different from those advertised on the websites.

Also in the retail market, the High Court accepted undertakings from high-street fashion chain The Officers Club, and its founder and chairman, not to publish misleading advertisements referring to discounts from its previous prices. The judgment clarified the law on 'own price' discounting and followed OFT action against the retailer.

In the first court action of its kind by the OFT in Scotland, the Court of Session granted interim enforcement orders against a Glasgow-based double-glazing supplier for providing poor goods and services.

The OFT is responsible for coordinating enforcement action by local authority Trading Standards Services (TSSs) and other designated enforcers against traders breaching certain key consumer laws. TSSs and other enforcers frequently called on us for support and in total we provided *ad hoc* advice on more than 500 cases. With our support, TSSs were able approximately to triple their level of Enterprise Act enforcement in 2005-06 compared with the previous year.

We continued to train our enforcement partners in the use of their Enterprise Act powers. We ran 16 advanced courses for 500 trading standards personnel and lawyers from 140 local authorities and delivered 12 basic training sessions to a further 200 trading standards personnel.

Enforcing competition law

We used our powers under UK and European law to combat all forms of illegal anti-competitive behaviour, including cartels and the abuse of market power, while working to promote compliance through guidance to business.

We opened 23 cases under the Competition Act 1998 during the year, which involved possible cartel activity. Formal investigations were launched into 18 cases where we had reasonable grounds to suspect an infringement had occurred. We issued 6 formal decisions and one interim measures direction, and imposed fines totalling £4.7m (reduced to £1.9m after leniency).

We decided that a collective agreement to fix the domestic interchange fee for MasterCard credit and charge card transactions infringed UK and EC competition law and led to higher prices for consumers.

Our cartel investigations resulted in two decisions against price-fixing agreements in the tendering of construction contracts. The 17 contractors involved were fined a total of £2.5m, reduced to around £1.7m by leniency.

A further cartel investigation resulted in a decision against a price-fixing and market sharing agreement in the market for stock check pads. The three suppliers involved were fined a total of £2.2m, reduced to around £0.2m by leniency.

We issued a statement of objections against 50 independent schools in respect of an information-sharing agreement on proposed fee increases. In order to arrive at an effective conclusion of the case, we worked with a steering group of the Independent Schools Council on a proposed settlement, which was put to the schools in February 2006.

We successfully defended appeals against our decisions in the Genzyme and replica football kit cases in the Competition Appeal Tribunal.

Reviewing mergers

Company mergers can have a significant impact on how markets perform. We examined a total of 209 public mergers to assess their competitive effects. We referred 17 to the Competition Commission (CC) for more detailed examination and accepted undertakings in lieu of a reference in four cases.

Studying markets

Our ten-month study of the £8b care home market, launched in response to a super-complaint from Which? recommended a one-stop shop for information to help older people choose the right home. We also called for better access to complaints procedures, greater price transparency and fairer contract terms for care home residents.

In our other market study reports, we recommended reform of the property search market to improve competition and consumer choice, and proposed a new framework for designing public subsidies which takes account of market effects. A follow-up to our 2003 study of UK liability insurance markets found that the situation for policyholders had improved, with premiums rising at a much slower rate and fewer businesses being denied cover.

We launched two further studies – into the Pharmaceutical Price Regulation Scheme and the commercial use of public-sector information – and responded to a super-complaint from Citizens Advice by announcing our intention to carry out a study into payment protection insurance.

We found that the markets for classified directory advertising services and Northern Ireland personal current account banking did not appear to be working effectively and should be examined further by the CC. We also signalled our intention to refer the UK grocery market to the CC, subject to a public consultation.

Information, liaison and market intelligence

The OFT-led Task Force on payment systems secured a landmark agreement to deliver faster clearing times for internet and telephone payments by the end of 2007, thus ending the 'float' that banks make in interest while payments are clearing. Independent estimates put the notional value of faster clearing to the UK economy at between £750m and £1,340m over ten years.

We strengthened our links with key stakeholders in business and consumer organisations across the UK to explain our work and provide an open door for them to raise issues and concerns with us. We also participated in international forums to develop best practice approaches to competition and consumer regulation enforcement and provide a UK perspective in policy discussions. As part of the UK's presidency of the European Union, we hosted the first joint European Competition and Consumer Day, attended by 350 delegates from 34 countries.

We worked to promote a pro-competition and pro-consumer culture in the public sector and provided advice and guidance on Regulatory Impact Assessments to government departments.

During 2005-06, our Enquiries Unit handled 75,656 telephone calls, 20,076 e-mails and 2,931 letters, and provided a key source of intelligence for our market studies and enforcement work.

Communicating

Through consumer education, we sought to empower consumers to make informed buying decisions. In late 2005, we launched a major education programme to encourage young people to shop around for credit, and in February 2006 we ran scams awareness month, a campaign to help consumers recognise and report mass-marketed scams.

We began to work in earnest to implement our national consumer education strategy. For example we ran a conference for members of the OFT-led consumer education alliance of public, private and voluntary-sector organisations. The event gave attendees the chance to discuss priorities, share ideas and begin coordinating their work.

We kept businesses informed of their rights and responsibilities under competition and consumer law. Small and medium-sized enterprises (SMEs) were the targets of our ongoing campaign to champion competition. We encouraged SMEs to comply with competition law and report anti-competitive activity by customers, suppliers or competitors. We also ran regional roadshows for businesses and took part in HM Revenue & Customs business advice open days.

Business focus for the future

The Government has decided to entrust the OFT with new roles, in relation to consumer law and trading standards. We will become a national voice and advocate for the Trading Standards Service. We will also take over responsibility for Consumer Direct from the Department of Trade and Industry. Consumer Direct will enable us to provide practical and impartial advice to consumers. We will develop further a service-based, collaborative internal culture within the OFT and ensure that our processes are efficient and effective.

- *A more detailed account of our performance is available in the OFT annual report for 2005-06 which can be ordered or downloaded via our website at www.oft.gov.uk/news/annual+report.*

Remuneration Report

Remuneration Policy

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

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

Service Contracts

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

Remuneration Committee

The OFT remuneration committee determines the salaries paid to Senior Civil Servants within the OFT. During 2005-06 the committee comprised two independent members (Sir Geoffrey Owen and Rosalind Wright) and Sir John Vickers until 30 September 2005. On his appointment from 1 October 2005, Philip Collins replaced Sir John Vickers.

Chairman's and Board Members' Remuneration

The Chairman's, Chief Executive's and non-executive board members remuneration and other terms and conditions of service are determined by the Secretary of State for Trade and Industry.

The salary and pension entitlements of the most senior managers of the Department during 2005-06 were as follows:

OFFICIALS

	2005-06 Salary	2005-06 Benefits in kind (to nearest £100)	2004-05 Salary	2004-05 Benefits in kind (to nearest £100)
	£000	£000	£000	£000
Sir John Vickers *Chairman* *(until 30 September 2005)*	100-105 *(200-205 full year equivalent)*	–	195-200	–
Miss Penny Boys CB *Executive Director* *(until 30 November 2005)*	80-85 *(125-130 full year equivalent)*	–	120-125	–
Mr John Fingleton *Chief Executive Officer* *(from 6 October 2005)*	120-125 *(250-255 full year equivalent)*	–	N/A N/A	N/A N/A
Mr Bart Smith *Chief Operating Officer* *(from 11 April 2005)*	110-115 *(110-115 full year equivalent)*	–	N/A	N/A
Mrs Christine Wade *Director Consumer Regulation Enforcement Division*	90-95	–	85-90	–
Mr Vincent Smith *Director Competition Enforcement Division*	90-95	–	85-90	–
Mr Brian McHenry *Director Legal Division*	105-110	–	70-75	–
Mr Jonathan May *Director Markets & Policy Initiatives Division*	95-100	–	90-95	–
Mr Mike Ricketts *Director Communications Division*	80-85	–	80-85	–
Non-Executive Board Members:				
Mr Philip Collins	75-80		N/A	
Mr Allan Asher	15-20		15-20	
Lord Norman Blackwell	15-20		15-20	
Mrs Christine Farnish	15-20		15-20	
Mr Richard Whish	15-20		15-20	
Mrs Rosalind Wright	15-20		25-30	

Mr Collins was appointed Chairman from 1 October 2005 for a period of four years. The equivalent full year salary is £155k-160k.

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

Lord Blackwell and Mrs Farnish were appointed from 1 April 2003 until 31 March 2008.

Mr Whish and Mrs Wright were appointed from 1 April 2003 until 31 March 2007.

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

Salary

'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 allowance to the extent that it is subject to UK taxation. No employees (including senior management) received benefits in kind.

PENSIONS

OFFICIALS

	Accrued pension at age 60 as at 31-3-06 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31-3-06	CETV at 31-3-05	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Sir John Vickers *Chairman* *(until 30 September 2005)*	5-10 plus lump sum of 15-20	0-2.5 plus lump sum of 0-2.5	101	76	11	–
Miss Penny Boys CB *Executive Director* *(until 30 November 2005)*	55-60 plus lump sum of 165-170	0-2.5 plus lump sum of 5-10	1,318	1,063	51	–
Mr John Fingleton *Chief Executive Officer* *(from 6 October 2005)*	0-5	0-2.5	9	0	7	–
Mr Bart Smith *Chief Operating Officer* *(from 11 April 2005)*	5-10	7.5-10	158	–	154	–
Mrs Christine Wade *Director Consumer Regulation Enforcement Division*	35-40	0-2.5	706	539	28	–
Mr Vincent Smith *Director Competition Enforcement Division*	10-15 plus lump sum of 25-30	0-2.5 plus lump sum of 0-2.5	249	176	23	–
Mr Brian McHenry *Director Legal Division*	40-45 plus lump sum of 120-125	0-2.5 plus lump sum of 5-7.5	896	684	45	–
Mr Jonathan May *Director Markets & Policy Initiatives Division*	35-40 plus lump sum of 115-120	2.5-5 plus lump sum of 7.5-10	870	663	52	–
Mr Mike Ricketts *Director Communications Division*	30-35 plus lump sum of 100-105	0-2.5 plus lump sum of 2.5-5	796	638	37	–

The Non-Executive Board Members (excluding Allan Asher) are paid an amount in respect of pensions of 20 per cent of their basic salary. The following table describes the OFT's relevant pension contribution for 2005-06 and the prior years.

	05-06	03-04 & 04-05
	£000	£000
Mr Allan Asher	N/A	N/A
Lord Norman Blackwell	0-5	5-10
Mrs Christine Farnish	0-5	5-10
Mr Richard Whish	0-5	5-10
Mrs Rosalind Wright	0-5	10-15
Mr Philip Collins	35-40	–

Civil Service Pensions

The following pension details are provided in accordance with the 2005-06 Government Financial Reporting Manual and EPN Notice 141 served by the Cabinet Office.

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

Employee contributions are set at the rate of 1.5 per cent of pensionable earnings for classic and 3.5 per cent for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits 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 their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension 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.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Pension Liabilities

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

The previous Chairman and Ex-Directors General of the OFT are not members of the PCSPS but are pensioned by analogy to that scheme thereby gaining benefits commensurate with their salary and service. The current Chairman has received a one off payment to a pension plan as disclosed above.

John Fingleton
Chief Executive Officer and Accounting Officer for the OFT
15 May 2006

Statement of Accounting Officer's Responsibilities

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

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

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

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

- observe the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Financial Reporting Manual, have been followed, and disclose and explain any material departures in the resource accounts;
- prepare the accounts on a going concern basis.

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

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have had responsibility since my appointment on 6 October 2005 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*. Prior to my appointment, Sir John Vickers in his capacity as Accounting Officer maintained this system of internal control from 1 April 2005.

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.

During 2005-06 there has been a degree of change in the governance arrangements for the OFT. On the departure of the Chairman and Chief Executive, Sir John Vickers, the role was split. Philip Collins took up the role of Chairman on 1 October 2005 and I joined as Chief Executive Officer on 6 October 2005. The Board structure around us has remained the same. During the coming financial year the Chairman and I will take steps to address the governance framework further.

The Audit Committee advises me on the adequacy of the 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 of internal control has been in place in the OFT for the year ended 31 March 2006 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 in the OFT in the following way. At Board level, key corporate risks are kept under review, opportunities are identified and the adequacy of risk management controls is assessed. Responsibility for risk management is cascaded throughout the OFT, with managers and individual members of staff taking responsibility for managing specific risks which could affect the achievement of their objectives and targets, and for identifying opportunities which could enhance those objectives and targets.

Our internal auditors have found our underlying system of internal control to be satisfactory, but have reported that we need to continue the process of embedding risk management in the day to day activities of the OFT.

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;
- Since January 2006 a new Senior Executive Team has been set up to strengthen scrutiny;
- The Audit Committee, which is a committee of the Board, comprising three independent members, a non-executive member of the board and an operational director, which meets four times a year;
- 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 (HIA). These reports conclude that the OFT has a sound framework of risk management and control which provides reasonable assurance regarding the effective achievement of the OFT's objectives. As previously disclosed further work is required on developing the Corporate Governance framework and further embedding risk management. No significant internal control problems have arisen.

John Fingleton
Chief Executive Officer and Accounting Officer of the OFT
15 May 2006

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

I certify that I have audited the financial statements of the Office of Fair Trading for the year ended 31 March 2006 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Financial Statements and the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 15 to 16 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2006 and the net cash requirement, net resource outturn, resources applied to objectives, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

- 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

Comptroller and Auditor General

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

18 May 2006

STATEMENT OF PARLIAMENTARY SUPPLY

Summary of Resource Outturn

for the year ended 31 March 2006

	2005-2006							2004-2005
	Estimate			Outturn				
	Gross expenditure	A-in-A	Net Total	Gross expenditure	A-in-A	Net Total	Net total Outturn compared with estimate saving/(excess)	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
RfR: Advancing and safeguarding the economic interests of UK consumers								
Total Resources (note 2)	57,630	27	57,603	54,845	14	54,831	2,772	51,678
Net cash requirement for the year ended 31 March 2006								
Net Cash Requirement (note 4)	–	–	57,063	–	–	53,912	3,151	50,840

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):

		2005-2006 Forecast		2005-2006 Outturn	
		Income	Receipts	Income	Receipts
	Note	£000	£000	£000	£000
Total	5	6,225	*6,225*	18,694	*18,751*

Explanations of variances between Estimate and outturn are given in Note 4.

The notes on pages 24 to 41 form part of these accounts.

Operating Cost Statement
for the year ended 31 March 2006

	Note	2005-2006 £000	2004-2005 £000
Administration Costs:			
Request for Resources 1			
Staff Costs	9	32,159	30,182
Other Administration Costs	10	21,217	19,244
Operating Income	12	(18,693)	(9,447)
Programme Costs			
Request for Resources 1			
Expenditure	11	1,469	2,252
NET OPERATING COST	3	**36,152**	**42,231**

Statement of Recognised Gains and Losses
for the year ended 31 March 2006

	Note	2005-2006 £000	2004-2005 £000
Net gain on revaluation of tangible fixed assets	13	532	46
Net (loss)/gain on revaluation of intangible fixed assets	14	(10)	3
Overnight Increase in pension liabilities	18	(99)	–
Actuarial loss	18	(24)	(115)
Receipt of donated assets	20(b)	26	10
Total gain/(loss) since last financial statements		(425)	(56)

All income and expenditure are derived from continuing operations.

The notes on pages 24 to 41 form part of these accounts.

Balance Sheet
as at 31 March 2006

	Note	as at 31 March 2006		as at 31 March 2005	
		£000	£000	£000	£000
Fixed assets:					
Tangible assets	13		7,369		6,916
Intangible assets	14		285		452
Current assets:					
Debtors	15	3,122		2,976	
Cash at bank and in hand	16	1,608		2,711	
		4,730		5,687	
Creditors (due within one year)	17	**(5,766)**		**(5,925)**	
Net current (liabilities)			**(1,036)**		**(238)**
Total assets less current liabilities			**6,618**		**7,130**
Provisions for Liabilities and Charges	18	(3,959)		(4,166)	
			(3,959)		(4,166)
Total Assets less Total Liabilities before Pension Liabilities			**2,659**		**2,964**
Pension Liabilities	18	(1,291)		(1,156)	
			(1,291)		(1,156)
Total Assets less Total Liabilities after Pension Liabilities			**1,368**		**1,808**
Taxpayers' Equity					
General Fund	19		162		1,126
Revaluation reserve	20		1,181		674
Donated asset reserve	20		25		8
			1,368		1,808

John Fingleton
Chief Executive Officer and Accounting Officer

15 May 2006

The notes on pages 24 to 41 form part of these accounts.

Cash Flow Statement
for the year ended 31 March 2006

	Note	2005-2006 £000	2004-2005 £000
Net cash outflow from operating activities	21(a)	**(33,321)**	**(40,946)**
Capital expenditure and financial investment	21(b)	**(1,840)**	**(893)**
Receipts due to the Consolidated Fund which are outside the scope of OFT's activities	8	(15)	–
Payments of amounts due to the Consolidated Fund		**(18,737)**	**(9,485)**
Financing	21(c)	**52,810**	**52,106**
(Decrease)/Increase in cash in the period	21(d)	**(1,103)**	**782**

The notes on pages 24 to 41 form part of these accounts.

Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2006

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		**2005-2006**			**2004-2005**	
	Gross	**Income**	**Net**	**Gross**	**Income**	**Net**
	£000	£000	£000	£000	£000	£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	16,211	13,386	2,825	15,123	3,179	11,944
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.	16,765	5,293	11,472	15,160	6,268	8,892
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.	9,306	–	9,306	9,281	–	9,281
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 Office's IT infrastructure. To enhance and improve effective internal communications.	12,549	–	12,549	12,114	–	12,114
Net operating costs	**54,831**	**18,679**	**36,152**	**51,678**	**9,447**	**42,231**

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

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

The notes on pages 24 to 41 form part of these accounts.

Notes to the Resource Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2005-06 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. In addition to the primary statements prepared under UK GAAP, the *FReM* also requires the Department to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The *Statement of Operating Cost by Departmental Aim and Objectives* and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the OFT for the purpose of giving a true and fair view has been selected. The OFT's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to include the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. The minimum level of capitalisation of a group of tangible fixed assets is £5,000. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into a working condition. All tangible fixed assets are 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 FReM which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

1.8 Operating income

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

Competition Act 1998 penalties

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

1.9 Administration and programme expenditure

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

1.10 Capital charge

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

1.11 Foreign exchange

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

1.12 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (PCSPS) which are described in the Remuneration Report. The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The OFT recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the OFT recognises the contributions payable for the year.

The Chairman and former Directors General of the OFT are not members of the PCSPS but are pensioned by analogy to that scheme thereby gaining benefits commensurate with their salary and service, see note 18.

These financial statements are fully compliant with FRS 17.

1.13 Early departure costs

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

1.14 Provisions and Contingencies

(a) The OFT provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discounted rate of 2.2 per cent in real terms. Financing charges in the Operating Cost Statement in respect of end of lease provisions will include adjustments to amortise one year's discount rate and restate liabilities to current price levels. Related contingent liabilities and contingent assets are disclosed in accordance with FRS 12.

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

1.15 Value Added Taxation

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

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

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

1.16 Statement of Parliamentary Supply and Statement of Operating Costs by Departmental Aim and Objectives

The information contained in the Statement of Parliamentary Supply and associated notes is based on the Request for Resources information that forms part of the parliamentary approval processes.

Administration costs, programme costs and related receipts were attributed 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 25.

2. Analysis of net resource outturn

	2005-2006							2004-2005
	Admin	Other current	Gross resource expenditure	A-in-A	Net Total	Estimate	Net Total Outturn compared to Estimate	Prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000
Resource Outturn	53,376	1,469	54,845	(14)	54,831	57,603	(2,772)	51,678

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

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

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

	Note	2005-2006 £000	2004-2005 £000
Net Resource Outturn	2	54,831	51,678
Non-supply income (CFER)	5	(18,679)	(9,447)
Net operating cost		36,152	42,231

3(b) Outturn against final Administration Budget

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

	2005-2006		2004-2005	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Total Resources	53,376	54,699	49,426	53,632

4. Reconciliation of resources to cash requirement

	Note	Estimate £000	Net Total Outturn £000	Net total Outturn compared with estimate saving/(excess) £000
Resource Outturn	2	**57,603**	**54,831**	**2,772**
Capital:				
Acquisition of fixed assets	13,14	2,148	1,855	293
Investments	1.6	–	–	–
Non-operating A-in-A				
Proceeds of fixed asset disposals		–	–	–
Accruals adjustments:				
Non-cash items	10,11	(3,414)	(2,432)	(982)
Changes in working capital other than cash		206	(797)	1,003
Changes in creditors falling due after more than one year				
Use of provision	18	520	455	65
Net Cash Requirement		**57,063**	**53,912**	**3,151**

Explanation of varriances between Estimate and Outtrun. The net cash requirement variation of £3.2m consists of an underspend of £1.9m on staff costs due to lower than expected staff numbers. In addition there were underspends of £1m on consultancy and £0.3m on capital due to delays in project completion.

5. Analysis of income payable to the Consolidated Fund

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

		Forecast 2005-2006		Outturn 2005-2006	
		Income	**Receipts**	**Income**	**Receipts**
	Note	£000	£000	£000	£000
Operating income and receipts – excess A-in-A		–	–	–	–
Other operating income and receipts not classified as A-in-A		6,225	*6,225*	18,679	*18,736*
	19	6,225	*6,225*	18,679	*18,736*
Non-operating income and receipts – excess A-in-A	7	–	–	–	–
Other non-operating income and receipts not classified as A-in-A	8	–	–	15	*15*
Other amounts collectable on behalf of the Consolidated Fund		–	–	–	–
Total income payable to the Consolidated Fund		6,225	*6,225*	18,694	*18,751*

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

		2005-2006	**2004-2005**
	Note	£000	£000
Operating income	12	18,693	9,447
Adjustments for transactions between RfRs		–	–
Gross income		18,693	9,447
Income authorised to be appropriated-in-aid		(14)	–
Operating income payable to the Consolidated Fund	5	18,679	9,447

7. Non-operating income – Excess A-in-A

	2005-2006	**2004-2005**
	£000	£000
Non-operating income – Excess A in A	–	–

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

	Income	**Receipts**
	£000	£000
Receipts from the disposal of fixed assets	15	15

9. Staff related costs and staff numbers

Staff costs comprise:

	2005-2006			2004-2005
	Total	Permanently employed staff	Others	Total
	£000	£000	£000	£000
Wages and Salaries	25,392	23,900	1,492	24,921
Social security costs	2,114	2,114	–	2,039
Pension costs	4,759	4,759	–	3,332
Pension of retired members (non-cash as per FRS 17)	20	20	–	26
Sub total	32,285	30,793	1,492	**30,318**
Less recoveries in respect of outward secondments	(126)	(126)	–	(136)
Total net costs*	**32,159**	**30,667**	**1,492**	**30,182**

*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 2005-2006, employer contributions of £4,536,275 were payable to the PCSPS (2004-05 £3,286,815) at one of four rates in the range 16.2 to 24.6 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contribution of £48,002 (2004-05 £32,454) 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 (2004-05 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 £4,677, 0.8 per cent (2004-05 £3,640, 0.8 per cent) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Included in pension costs is £169,656.76 in relation to lump sum payments on early retirement.

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

Average number of persons employed

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

	2005-2006			2004-2005
	Total	Permanent staff	Others	Numbers
Competition Enforcement	232	224	8	220
Consumer Regulation Enforcement	294	272	22	307
Markets & Policy Initiatives	122	117	5	116
Communications	48	39	9	74
Total	**696**	**652**	**44**	**717**

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

10. Other Administration Costs

	2005-2006		2004-2005	
	£000	£000	£000	£000
Rentals under operating leases:				
Hire of plant and machines	85		123	
Other operating leases	4,367		4,366	
		4,452		4,489
Research expenditure		295		196
Non-cash items:				
Depreciation of fixed assets				
Tangible fixed assets	1,129		1,621	
Intangible fixed assets	38		122	
Released from the donated asset reserve	(4)		(2)	
Profit on disposal of fixed assets	(11)		(5)	
Cost of capital charge	22		46	
Auditor's remuneration and expenses	50		50	
Devaluation of IT Hardware	949		106	
Provision: Amounts provided for in year	555		158	
Restructuring costs	650		–	
Amounts not required written back	(211)		–	
Unwinding of discount on provisions	155		146	
Total Non-Cash Costs		3,322		2,242
Other expenditure				
Rates	1,207		1,270	
Consultancies	2,445		3,210	
Training	892		936	
Publicity and campaigns	2,294		1,401	
Maintenance	1,766		1,291	
Travel & subsistence	438		442	
Telecoms	469		504	
Events	543		456	
Publications	296		309	
Recruitment	493		252	
Other expenditure	2,305		2,246	
Total other expenditure		13,148		12,317
		21,217		19,244

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

11. Programme Costs

	2005-2006	2004-2005
	£000	£000
Non-cash items:		
Provision: Amounts provided for in year	–	1,000
Provision: Amounts not required written back	(910)	–
Other expenditure	2,379	1,252
Total programme expenditure	1,469	2,252

Total programme expenditure of £1,469k (2004-2005 £2,252k) comprises litigation costs of £1,468k and expert witnesses costs of £1k.

Reconciliation of non-cash costs

	Note		
Staff costs	9	20	26
Non-staff administration costs	10	3,322	2,242
Programme Costs	11	(910)	1,000
		2,432	3,268

12. Income

	2005-2006	2004-2005
	£000	£000
Fees for the administration of the Consumer Credit Act 1974	5,293	6,268
Fees charged for mergers under the Fair Trading Act 1973 and Enterprise Act 2002	1,630	1,270
Penalties imposed under the Competition Act 1998	11,123	1,909
Appeal costs reimbursed	633	–
A-in-A	14	–
	18,693	9,447

13. Fixed assets

Tangible Fixed Assets

	Information Technology	Building Improvements	Furniture and Fittings	Assets under Construction	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2005	12,716	3,040	2,304	–	18,060
Additions	197	17	53	1,454	1,721
Donations	23	–	3	–	26
Disposals	(410)	–	–	–	(410)
Revaluation	461	58	31	–	(550)
Devaluation	(694)	–	(2)	–	(696)
At 31 March 2006	12,293	3,115	2,389	1,454	19,251
Depreciation					
At 1 April 2005	8,586	1,685	873	–	11,144
Charged in year	539	336	254	–	1,129
Disposals	(409)	–	–	–	(409)
Revaluation	1	11	6	–	18
At 31 March 2006	8,717	2,032	1,133	–	11,882
Net book value at 31 March 2006	3,575	1,083	1,256	1,454	7,369
Net book value at 31 March 2005	4,130	1,355	1,431	–	6,916

14. Intangible Fixed Assets

	Software Licences	Total
	£000	£000
Cost or valuation		
At 1 April 2005	823	823
Additions	134	134
Revaluation	(10)	(10)
Devaluation	(253)	(253)
At 31 March 2006	694	694
Depreciation		
At 1 April 2005	371	371
Charged in year	38	38
Revaluation	–	–
At 31 March 2006	409	409
Net book value at 31 March 2006	285	285
Net book value at 31 March 2005	452	452

15. Debtors

15(a) Analysis by type

	2005-2006	2004-2005
	£000	£000
Amounts falling due within one year:		
Trade debtors	206	162
Deposits and advances	137	139
Other debtors	80	302
Value Added Tax	918	584
Prepayments and accrued income	1,781	1,789
Total debtors	3,122	2,976

Included within other debtors is £65,000 (2004-05:£285,166) that will be due to the Consolidated Fund once the debts are collected.

15(b) Intra-Government Balances

	Amounts falling due within one year	
	2005-2006	2004-2005
	£000	£000
Balances with other central government bodies	1,043	667
Balances with local authorities	–	–
Balances with NHS Trusts	–	–
Balances with public corporations and trading funds	34	10
Subtotal: intra-government balances	1,077	677
Balances with bodies external to government	2,045	2,299
Total debtors at 31 March 2006	3,122	2,976

16. Cash at bank and in hand

		2005-2006	2004-2005
	Note	£000	£000
Balance at 1 April		2,711	1,929
Net change in cash balances		(1,103)	782
Balance at 31 March		1,608	2,711
The following balances at 31 March were held at:			
Office of HM Paymaster General		1,583	2,689
Commercial banks and cash in hand		25	22
Balance at 31 March		1,608	2,711
The balance at 31 March comprises:			
Amounts issued from the Consolidated Fund for supply but not spent at year end		335	1,438
Consolidated Fund extra receipts received and deferred	17	498	661
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund		775	612
		1,608	2,711

17. Creditors

17(a) Analysis by type

		2005-2006		2004-2005
		£000		£000
Amounts falling due within one year				
Trade creditors		1,613		638
Other creditors		1,164		1,155
Accruals and deferred income		1,814		1,797
Amounts issued from the consolidated fund for supply but not spent at the year end		335		1,438
Consolidated fund extra receipts due to be paid to the consolidated fund				
received	775		612	
receivable	65	840	285	897
		5,766		5,925

Included within accruals and deferred income is £497,555 of deferred income which relates to amounts received for surrender to the Consolidated Fund. (2004-05 £660,695).

17(b) Intra-Government Balances

	Amounts falling due within one year	
	2005-2006	**2004-2005**
	£000	£000
Balances with other central government bodies	1,280	2,358
Balances with local authorities	3	–
Balances with NHS Trusts	–	–
Balances with public	–	–
corporations and trading funds	304	–
Subtotal: intra-government balances	1,587	2,358
Balances with bodies external to government	4,179	3,567
Total creditors at 31 March 2006	**5,766**	**5,925**

18. 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 2005	198	2,543	1,425	4,166
Provided in year	385	–	650	1,035
Increase in provision due to discount rate change	–	104	–	104
Provisions not required written back	–	–	(1,121)	(1,121)
Provisions utilised in the year	(86)	–	(294)	(380)
Unwinding of discount	–	155	–	155
Balance at 31 March 2006	497	2,802	660	3,959
Expected timing of cash flows				
Less than one year	125	–	660	785
Between one and five years	218	2,802	–	3,020
After 5 years	154	–	–	154
	497	2,802	660	3,959

(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 (2004-05: Two).

(b) The building refurbishment provision relates to end of lease liabilities for Fleetbank House. The lease is due to expire in 2009. This provision has been discounted at the Treasury rate of 2.2 per cent (2004-05: 3.5 per cent).

(c) Included within other provisions is £10k relating to the best estimate we consider required in respect of outstanding claims relating to a complaint made to the Ombudsman's office which may result in payments to third parties. We are unable to determine when this provision may crystallise. £650k relates to a provision in respect of the relocation of our operations at Craven House to Fleetbank House.

(d) Pension provisions for the year ending 31 March 2006 are:

	Total
	£000
Balance at 1 April 2005	1,156
Provided in year	211
Provisions utilised in the year	(76)
Balance at 31 March 2006	1,291
Expected timing of cash flows	
Less than one year	76
Between one and five years	304
After 5 years	911
	1,291

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

An actuarial valuation was carried by the Government Actuary’s Department (GAD) at 31 March 2006.

The financial assumptions used in the calculation of the liability as at 31 March 2006 are as follows:

- An investment return in excess of price increases of 2.8 per cent p.a. (2004-05: 3.5 per cent p.a.)
- An investment return in excess of earnings increases of 2.8 per cent p.a. (2004-05: 3.5 per cent p.a.)
- The gross rate of return is assumed to be 5.4 per cent p.a. although this assumption has a minor impact on the calculation of the liability. (2004-05 6.1 per cent p.a.)
- In nominal terms these assumptions are then equivalent to an allowance for increases in salaries of 2.5 per cent p.a. and an allowance for price inflation of 2.5 per cent p.a. (2004-05: 2.5 per cent p.a.)

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

	£000
– Overnight Increase in liabilities (change in real return)	99
– Current service cost (net of Employee Contributions)	21
– Employee Contributions	1
– Interest Cost	66
– Actuarial Losses	24
	211
– Benefits Paid	(76)
– Increase in provision	135

19. General Fund

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

		2005-2006		2005-2006
		£000		£000
Balance at 1 April		1,126		1,914
Net Parliamentary Funding				
Drawn Down	52,810		52,106	
Deemed	1,438	54,248	172	52,278
Year end adjustment				
Supply Creditor – current year		(335)		(1,438)
Net Transfer from Operating Activities				
Net Operating Cost	(36,152)		(42,231)	
CFER repayable to Consolidated Fund	(18,679)	(54,831)	(9,447)	(51,678)
Non operating income surrenderable to the Consolidated Fund		(10)		(7)
Non-cash charges:				
Cost of capital	22		46	
Auditors remuneration	50	72	50	96
Transfer from revaluation reserve (note 20(a))		15		76
Actuarial Loss		(24)		(115)
Overnight increase in pension liabilities		(99)		–
General fund at 31 March (Balance Sheet)		162		1,126

20. Reserves

20(a) Revaluation Reserve

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

	2005-2006	2004-2005
	£000	£000
Balance at 1 April	674	701
Arising on revaluation during the year (net)	522	49
Transferred to general fund in respect of realised element of revaluation reserve	(15)	(76)
Balance at 31 March	1,181	674

20(b) Donated Asset Reserve

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

	Donated Asset Reserve 2005-2006	2004-2005
	£000	£000
Balance at 1 April	8	–
Additions during the year	26	10
Devaluation	(5)	–
Release to the Operating Cost statement	(4)	(2)
Balance at 31 March	25	8

21. Notes to the Cash Flow Statement

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

	Note	2005-2006	2004-2005
		£000	£000
Net operating cost	3	36,152	42,231
Adjust for non-cash transactions	11	(2,432)	(3,268)
Increase in Debtors	15	146	603
less movement in debtors relating to items not passing through the OCS		–	–
Decrease/(Increase) in Creditors	17	159	(45)
less movement in creditors relating to items not passing through the OCS	19	(1,159)	1,233
Use of provisions	4	455	192
Net cash outflow from operating activities		33,321	40,946

21(b) Analysis of capital expenditure and financial investment

	Note	2005-2006	2004-2005
Tangible fixed assets additions	13	1,721	885
Intangible fixed assets additions	14	134	13
Proceeds of disposal of fixed assets	5	(15)	(5)
Net cash outflow from investing activities		1,840	893

21(c) Analysis of financing

	2005-2006	2004-2005
From the Consolidated Fund (Supply) – current year	52,810	52,106
Net financing	52,810	52,106

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

	Note	2005-2006 £000	2004-2005 £000
Net cash requirement	4	53,912	50,840
From the Consolidated Fund (Supply) – current year	19	(52,810)	(52,106)
Amounts due to the Consolidated Fund – received in a prior year and paid over	16	1,273	1,757
Amounts due to the Consolidated Fund received and not paid over	16	(1,272)	(1,273)
Decrease/(Increase) in cash in the period		1,103	(782)

22. Capital commitments

	2005-2006 £000	2004-2005 £000
Contracted capital commitments at 31 March 2006 for which no provision has been made	–	–

23. Commitments under operating leases

	2005-2006		2004-2005	
	Land and Buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
At 31 March 2006 the department was committed to making the following payments during the next year in respect of operating leases expiring:				
Within one year	–	56	–	2
Between two and five years	4,367	22	–	76
After five years	–	–	4,366	–
	4,367	78	4,366	78

24. Other financial commitments

The department has no non-cancellable contracts (which are not operating leases) as at 31 March 2006 (2004-05 None).

25. Financial instruments

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

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

Liquidity risk

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

Interest-rate risk

As at 31 March 2006 the OFT's net financial assets, excluding OPG cash balances and Consolidated Fund balances, were subject to the Treasury's rate of 3.5 per cent.

Foreign currency risk

The OFT has no foreign currency risk.

Financial assets

The OFT has non-interest bearing financial assets at 31 March 2006 of £1,607,606. This is cash in hand and at bank reported in the balance sheet. All cash balances are held in Sterling.

Financial liabilities

The OFT has the following financial liabilities at 31 March 2006 denominated in Sterling:

Non-discounted provisions for early retirement, former Directors General and claims totalling £2,448k. Refurbishment provisions discounted by the 2.2 per cent government rate to their net present value.

The maturity profile of the OFT’s financial liabilities at 31 March 2006 was as follows:

	£000
In one year or less or on demand	861
In more than one year but not more than two years	133
In more than two years but not more than five years	3,191
In more than five years	1,065
	5,250

26. Contingent assets and liabilities reported under FRS 12

Where appeals are made against OFT decisions there is a possibility of a transfer of economic benefits to third parties. Other than amounts that are already provided for, any liabilities are too remote and cannot be reasonably quantified.

Decisions with penalties totalling £28.8m 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.

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

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

Statutory Indemnity:

On 11 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.

28. Related-party transactions

The OFT has had a small number of transactions with other government departments and other central government bodies.

None of the Board members, key managerial staff or other related parties has undertaken any material transactions with the OFT during the year.

29. Memorandum Trading Accounts

Income from administration of the Consumer Credit Act 1974 and fees for mergers under the Fair Trading Act 1973 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 2005-06 are shown below:

		2005-2006		2004-2005
	Total Cost	Total Income	Net Surplus/ (Deficit)	Net Surplus/ (Deficit)
	£000	£000	£000	£000
Fees for administration of the Consumer Credit Act 1974	7,065	5,293	(1,772)	(758)
Fees for mergers under Fair Trading Act 1973 and Enterprise Act 2002	17,146	1,630	(15,516)	(10,489)
Total	24,211	6,923	(17,288)	(11,247)

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

30. Deferred Income

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

	2005-2006	2004-2005
	£000	£000
Fees for administration of the Consumer Credit Act 1974	453	521
Fees for mergers under Fair Trading Act 1973 and Enterprise Act 2002	45	140
Fees payable to the Consolidated Fund	498	661

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

31. Post Balance Sheet events

There were no reportable post balance sheet events.

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