

# **Approach to calculating direct benefits to consumers**

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OFT955

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# 1 INTRODUCTION

- 1.1 The Office of Fair Trading (OFT) is responsible for making markets work well for consumers. We achieve this by promoting and protecting consumer interests throughout the UK, while ensuring that businesses are fair and competitive.
- 1.2 As part of the Comprehensive Spending Review settlement 2007 (CSR07), the OFT has agreed with HM Treasury (HMT) a performance framework which includes the following two high-level targets:
- Target A: In each annual report provide quantitative evidence of how the OFT delivers direct financial benefits to consumers of at least five times that of its cost to the taxpayer across the spending review period. ('5 : 1' hereafter)
  - Target B: In each annual report estimate the additional wider benefits of OFT's work, e.g. increasing consumer and business confidence in markets and deterring future anti-competitive behaviour<sup>1</sup>.
- 1.3 The performance framework will be used as a basis of HMT's assessment of OFT's effectiveness in the next Spending Review.
- 1.4 The OFT evaluation team will conduct a wide-ranging programme to measure these targets. It includes in-depth ex-post evaluations of OFT projects, research into the wider benefits of OFT work, and procedural support in helping to estimate the impact of our work at the moment that we do it.
- 1.5 Impact assessment and evaluation are relatively new to competition authorities. To date there are only a handful of competition authorities from countries who are members of the Organisation of Economic Cooperation and Development (OECD) that measure their impact and

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<sup>1</sup> This will also include any benefits of the dynamic effects of competition on efficiency/productivity and innovation.

even then this is usually restricted to mergers and/or competition enforcement.<sup>2</sup>

- 1.6 This document describes the OFT approach to measuring performance against target A above: direct benefits of our work to consumers.<sup>3</sup>
- 1.7 The first section outlines the high level framework and assumptions. The second section describes the process of embedding the measurement of the target across the Office. The third section briefly summarises the methods the OFT has used so far to estimate the impact of its work. These methods are explained in greater detail in Positive Impact 06/07 (OFT 928) and Consumer Savings from Merger Control (OFT917), which are available on our web-site<sup>4</sup> along with other publications about the OFT evaluation regime.
- 1.8 The OFT consulted on its approach between September and December 2007. This document takes into account the responses received during the consultation.

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<sup>2</sup> See for example the Netherlands Competition Authority's (NMa) Annual Report 2004 at [http://www.nmanet.nl/Images/annualreport%202004\\_tcm16-75193.pdf](http://www.nmanet.nl/Images/annualreport%202004_tcm16-75193.pdf) and Competition Commission's Annual Report and Accounts 2005-6 at [http://www.competition-commission.org.uk/rep\\_pub/annual\\_rev\\_archive/pdf/cc2006.pdf](http://www.competition-commission.org.uk/rep_pub/annual_rev_archive/pdf/cc2006.pdf)

<sup>3</sup> This target refers to all OFT activities except for Consumer Direct, for which there is a commitment to deliver a ratio of benefits to costs of 3.5 : 1. The target also excludes consumer credit and anti-money laundering as these activities will be self-funded and therefore not a cost to the taxpayer. On consumer credit and anti-money laundering the OFT will be subject to statutory requirements and have no ability to reallocate resources.

<sup>4</sup> [www.of.gov.uk/advice\\_and\\_resources/resource\\_base/evaluation/](http://www.of.gov.uk/advice_and_resources/resource_base/evaluation/)

## 2 HIGH LEVEL FRAMEWORK

### Meeting the target

2.1 We will consider target A fully met if:

- by April 2011, the OFT has provided evidence that on an annual average basis during 2008-2011 it has delivered direct financial benefits to consumers that are at least five times its cost to the Exchequer.

2.2 HM Treasury recognizes that meeting the above target fully may be difficult as, whilst the OFT costs are known, many benefits cannot be measured yet. As such, it considers that it is essential to report separately on the benefits and costs of those projects whose benefits we can estimate. We will, therefore, consider target A partly met if:

- the activities for which we can quantify direct financial benefits<sup>5</sup> are shown to provide consumer benefits of at least five times their cost to the taxpayer (per year averaged across the spending review period), and
- success indicators for those projects whose benefits we cannot easily quantify in monetary terms<sup>6</sup> move in a favourable direction, thus indicating that desired changes of behaviour are taking place following OFT work and, as a result of this, consumer benefits are likely to be achieved.

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<sup>5</sup> For example Competition Act 1998 (CA98) enforcement, market studies, mergers and scams. Scams are, usually, discrete operations by organisations wilfully breaking the law and that have a defined way of operating and a relatively limited life before the scam becomes no longer possible. This limited scope and time horizon, combined with a clear counterfactual due to the organisations wilfully breaking the law, tends to make impact estimation simpler compared to other consumer law enforcement work with a wider objective.

<sup>6</sup> For example those projects that are a step removed from delivering direct financial benefits to consumers, such as policy and partnership work. See also section on 'Conservatism of benefit estimates included in the 5 : 1'.

- 2.3 It is important to reiterate that this target (partly or fully met) does not reflect the full impact of the OFT's value-for-money work. The target represents only a partial measure of the OFT impact on the wider economy and does not suggest that direct benefits are inherently more worthwhile than indirect benefits. This is also reflected in our Prioritisation Principles, where direct impact is only one of the factors taken into account when deciding whether to undertake a project.<sup>7</sup>
- 2.4 The OFT would expect to achieve wider benefits (high level target B) beyond the direct financial impact on consumers. This document does not discuss those commitments and how they are going to be measured.
- 2.5 The new performance framework agreement is an important improvement compared to previous frameworks, as many of its agreed targets are outcome, rather than output, based.

### **Definition of 'direct financial benefits'**

- 2.6 The OFT's goal is to 'make markets work well for consumers'. For this reason, and in line with other competition authorities around the world, the OFT's impact target focuses solely on the benefit to consumers of OFT actions, or action by others (eg. Courts, Government, Competition Commission) pursuant to an OFT intervention<sup>8</sup>. This includes benefits from voluntary pro-consumer changes by businesses because of an investigation, or as a result of settlements.
- 2.7 Consumer benefit does not arise solely from actions that remedy price raising anticompetitive activity. Direct consumer benefits may also arise from a market study that facilitates switching, enforcement of consumer

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<sup>7</sup> For more detail on this please see Consultation on OFT Prioritisation Principles, published on 25 September 2007.

<sup>8</sup> To meet its target, the OFT will need considerable support from the various agencies, particularly Local Authority Trading Standards Services, which help the OFT deliver its vision in respect of confident consumers and businesses behaving fairly.

law or education activities that lead consumers to make improved choices.

- 2.8 Financial benefits to consumers include: decrease in price, monetized improvements in quality range or service, monetized time savings, and the benefits that consumers gain from making better informed choices about what goods to purchase.
- 2.9 Where the problem is in an upstream market and benefit arises in the first instance to business customers, we assume full pass-through of benefits to final consumers, unless strong evidence shows otherwise, as in the vast majority of cases it is disproportionately time consuming to determine the level of this pass-through. Thus, for example, an increase in manufacturer competition that results in lower wholesale prices is assumed in turn to result in lower retail prices and is treated as a direct benefit. A benefit to final consumers could also arise from addressing an anti-competitive situation between a supplier and a business customer.
- 2.10 There are also benefits to consumers from OFT work that leads to increased efficiency/productivity and innovation, where these get passed on. They are, however, difficult to assess in the short-term. As such, though they may be action-specific, we will consider benefits of this nature under target B.
- 2.11 The benefits of our deterrent effect,<sup>9</sup> and the improvements in consumer and business confidence in markets induced by OFT actions, are included in target B and as such are not included in the measurement towards target A, which is focused on the direct financial impact on consumers of our work.
- 2.12 To avoid any chance of prejudicing our fine setting process, and also as the consumers receive no direct benefits from the fines, we do not

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<sup>9</sup> On deterrence of anti-competitive mergers, anti-competitive agreements, and abuse of dominance, the OFT has commissioned research from Deloitte, *The deterrent effect of competition enforcement of the OFT* (OFT962) available at [http://www.of.gov.uk/advice\\_and\\_resources/resource\\_base/evaluation/publications](http://www.of.gov.uk/advice_and_resources/resource_base/evaluation/publications)

offset fines against our costs or include them as part of our benefits. We will record fines recovered separately. Finally, we do not include redress benefits from private actions in our consumer savings estimates.

## **Definition of costs**

- 2.13 In the '5 : 1' target, benefits are compared to (gross) costs to the Exchequer. In 2006/07 the OFT cost, excluding Consumer Direct, was £57.3m.<sup>10</sup>
- 2.14 Total costs to the Exchequer will be used as denominator in calculating the value for money ratio in the fully met target. For the partially met target we will use only the cost of the activities whose benefits can be estimated.
- 2.15 While our principal target is to help markets work well for consumers, we are mindful of our better regulation commitments and make every effort to keep administrative burdens on businesses to a minimum.<sup>11</sup>

## **Conservatism of benefit estimates included in the '5 : 1'**

- 2.16 OFT strives to get best estimates of its impact. However, in aggregate OFT estimates of impact will be conservative because:
- not all projects are included. For some projects it will not be possible to estimate financial benefits (for example the support we provide to

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<sup>10</sup> Please note that over the Comprehensive Spending Review 2007 (CSR07) period (2008-11) the OFT costs to be used for the value for money ratio will exclude not only Consumer Direct but also the cost of administering consumer credit and anti-money laundering activities, as these will be self-funded from 2008. The OFT's budget is also being reduced. As such, the relevant gross costs included in the '5 : 1' target will be lower than this 06/07 figure.

<sup>11</sup> Our ex-post evaluations include looking at whether there are substantial costs to business in implementing recommendations that result from our work. Explicit consideration of the burden to business is embedded in our new project management framework, rolled out in August 2007.

Local Authority Trading Standards Services (TSS) across the country<sup>12</sup>,<sup>13</sup> and

- many of the beneficial outcomes of the OFT's work are not easily quantifiable or monetizable (e.g. reducing psychological distress). We will, however, include any evidence of these benefits in target B, and
- where evidence is weak, our assumptions to estimate direct financial benefits are conservative
- we do not quantify in target A the dynamic effects of increased competition following an OFT intervention on efficiency/productivity and innovation. We assume, however, that immediate harm suffered from a frustration of competition is a good proxy for the extent to which innovation and efficiency incentives are diminished.

## Baseline approach

2.17 A common approach underpins all OFT impact estimates:<sup>14</sup>

- Unless there is evidence otherwise, we take as given that all decisions or interventions not overturned on appeal are correct.<sup>15</sup> We assume that the institutional structure, and the right of parties to appeal OFT decisions, are sufficient to ensure that poor decisions, or planned decisions, are identified and corrected.

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<sup>12</sup> Empowering partner organisations, such as TSS, so that they in turn can deliver more positive outcomes for consumers, is a key OFT impact. However, measuring the impact of it depends to a great extent on the ability of partner organisations to measure the benefits they in turn deliver to consumers. If third parties do not measure impact, OFT cannot measure the effect of its partners' empowerment initiatives in consumer benefit terms.

<sup>13</sup> That said, a number of reports have been published in the financial years 2005-2007 that evaluate the impact of some of these activities.

<sup>14</sup> See Positive Impact 06/7, Positive Impact 05/06 and OFT's Economic Discussion Paper 4.

<sup>15</sup> This does not mean that we will not claim a benefit until all appeal opportunities have been exhausted, but, rather, that we will claim a benefit until and unless an appeal overturns an intervention.

- Where possible, we base our estimate on information obtained during our investigations/projects. This information has already gone through a rigorous process of internal peer-review, and at times also external review by the Competition Appeal Tribunal. Where the relevant information is not available from internal project documents, assumptions are based on international best practice, academic research, and case officers' expertise.
- We are embedding impact estimation, monitoring and evaluation in our project work. Our measures of financial benefits will increasingly be based on data from monitoring and actual evaluations rather than parameters estimated elsewhere.
- We commission in-depth analysis of some of our projects. These evaluations are independent of those involved in the casework, are carried out by outside consultants and often have external representation. These ex-post evaluations of impact will sometimes be conducted more than three years after project completion, when the full effects of an intervention have, or should have, taken place. So in some cases they will not feature in our estimates of impact for the purpose of the '5 : 1' target. As such, the value for money ratio for CSR cannot rely only on project evidence from ex-post evaluations, but also has to involve impact estimation and monitoring of market developments.

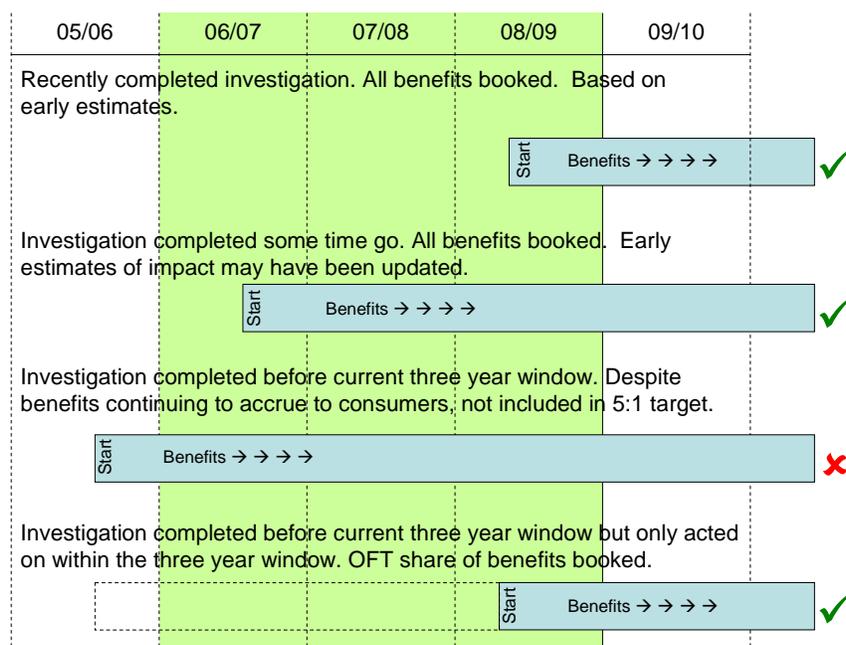
## **Presentation of results**

- 2.18 In each annual report we will present, as an annual average, our assessment of impact for selected work completed over the previous three financial years. This is consistent with our three-year CSR target and provides a clearer snapshot of our impact, which can fluctuate greatly from year to year due to the lumpiness of our work.
- 2.19 For discrete, time-limited projects we will first include an estimate of their impact in the annual report for the year in which the project is completed. For market studies, or other work that recommends action by

other agencies, we will publish estimates of impact in the annual report for the year that the recommendations are implemented.

- 2.20 For continuous programmes, such as scams and mergers, we will include in each annual report an estimate of the impact of the programme over the past year. Each year we present a rolling average of annual impact over three years.
- 2.21 Where we have only recently completed some work we will include an estimate of its impact. We will monitor markets in which we have made interventions, and we will amend our estimate of impact based on the evidence we obtain.
- 2.22 Where we believe our work will benefit consumers for a number of years we will include in our estimate of impact the discounted stream of predicted future benefits that are foreseen (for example, this period is usually assumed to be two years for mergers).
- 2.23 While estimating impact of reviews, we will make sure that we do not double-count the benefits if we had in the past claimed consumer savings from the original remedy that the review sets out to evaluate.
- 2.24 In the case of an OFT intervention completed before the three year rolling assessment period, any benefits that continue to accrue to consumers are not included in the '5 : 1' target.

2.25 The following diagram illustrates the above.



2.26 OFT's yearly impact estimates are based on the best evidence available at the time of estimation. We may, however, revise the benefit cost ratio for each reporting period as new information becomes available.

2.27 We will include estimates from ex-post evaluations in the total estimated direct benefits only when they apply to projects completed (or, for market studies, recommendations implemented) in the rolling assessment period (three years). In this case we will make downwards as well as upwards adjustments to impact estimates of the project the ex-post evaluation refers to. For other projects that have used similar impact assessment methodologies, and thus may be affected by the new evidence, we will not make adjustments but take account of the new evidence in future projects' assessments.

2.28 Ex-post evaluations will serve as a test of our initial estimates of impact, and the lessons learned from them will be applied to our ongoing impact estimation techniques. For example, if ex-post evaluations provide evidence of whether we generally overestimate or underestimate impact, this will feed into new project impact estimates. Similarly, if intelligence

from ex-post evaluations outside the rolling assessment period suggests benefits could have been more accurately measured, this will inform future assessments.<sup>16</sup>

- 2.29 Where interventions lead to benefits thanks to the joined action of the OFT and other agencies, we need to apportion the benefits. Where possible we agree automatic rules (e.g. with the Competition Commission). In those cases where some ad-hoc negotiation with other departments is necessary, it will be kept to a minimum.

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<sup>16</sup> Each year we will report any evaluation findings that fall outside the rolling assessment period (and findings on non-monetary benefits) as part of the 'wider benefits' of OFT work.

### 3 PROCESS OF EMBEDDING IMPACT ESTIMATION

#### Towards the '5 : 1' measurement: measurement of impact in 2006/7<sup>17</sup>

3.1 Monetary estimates of impact in 2006/7 (three year average) were based on direct measurable benefits that could be attributed to OFT work in the following activities: CA98 investigations (including cartels), mergers and scams. These are shown in the table below.

OFT Activity			Annual estimated benefit [A] See notes	Annual estimated cost [B] See notes	Benefit/ Cost ratio [C] [A]/[B]
Scams	[ 1 ]	See Notes	£10m	£1m	10
Mergers	[ 2 ]	See Notes	£52m	£4m	13
CA98	[ 3 ]	See Notes	£64m	£23m	3
Total	[ 4 ]	[ 1 ] + [ 2 ] + [ 3 ]	£126m	£28m	5
Other	[ 5 ]	See notes	n/a	£29m	
Total	[ 6 ]	{ 4 } + [ 5 ]	£126m	£57m	2
Notes	[A]:	Scams, Mergers and CA98 estimates from Positive Impact 06/07 (OFT 928)			
	[B]:	Total annual OFT cost (excl. Consumer Direct) for 2006/07			

3.2 Overall, we estimated that the consumer savings, in monetary terms, generated by the OFT in 2006/7 were likely to be about £126m. This,

<sup>17</sup> We will be estimating 2007/08 impact in the near future.

compared to annual OFT costs of about £57m (excluding Consumer Direct),<sup>18</sup> equates to a value for money ratio of about 2:1.

- 3.3 However, in 2006/7 we were on track to meet the target partially, as for mergers, CA98 and scams, value for money was estimated at approximately 5:1.
- 3.4 It is important to note that the benefits flowing from the blocking of, or accepting undertakings in lieu of a Competition Commission (CC) reference for, mergers which significantly lessen competition are indicative of the value of our work, and are not a 'performance indicator' in its strictest sense. This is because the OFT has no control on the number and types of mergers proposed and notified each year. In addition, the decision made by the OFT for each proposed merger (either to take undertakings in lieu, refer a merger to the CC, or clear it) should be unrelated to, and uninfluenced by, the '5 : 1' target.
- 3.5 The table above does not include the impact of many key activities, for example, market studies. In 2006/7 we completed our first ex-post evaluation of a market study, which showed that we achieved £120m-£170m benefits to consumer against a cost to the Exchequer of about £300,000.<sup>19</sup> This study falls outside the three year rolling assessment period so the benefits have not been included in the table. We are committed to commission an independent evaluation of the impact of at least one market study per year.

### **Towards the '5 to1' measurement: embedding impact estimation**

- 3.6 Estimates of direct financial benefits in 2006/7:

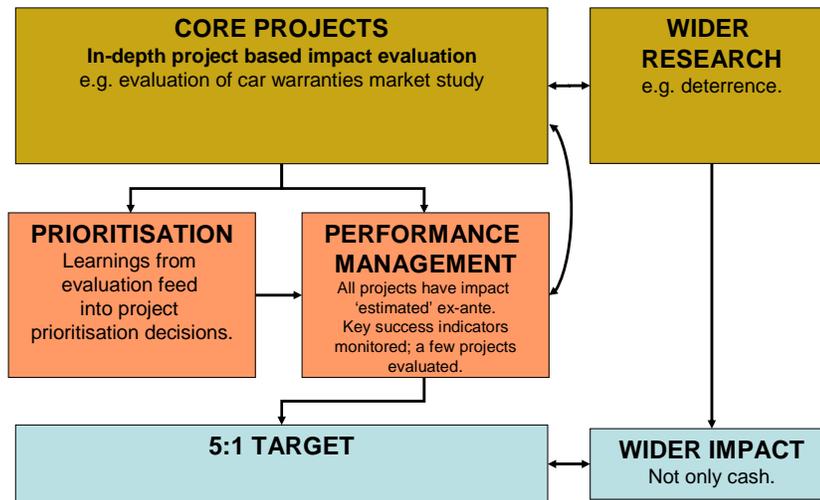
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<sup>18</sup> Please see footnote 10.

<sup>19</sup> *Evaluating the impact of the car warranties market study* (OFT852), at [http://www.of.gov.uk/advice\\_and\\_resources/resource\\_base/evaluation/publications](http://www.of.gov.uk/advice_and_resources/resource_base/evaluation/publications)

- do not include all OFT projects that deliver direct financial benefits, and
  - are based on methodologies that can be improved over time by further research and better data recording at the time of the case/project.
- 3.7 To address this, the OFT is embedding impact estimation at project level, so that, from April 2008, we will have a wider range of projects for which we have estimates of impact. Initially, some of these estimates may be based on assumptions and expert knowledge. However, over time, because of the embedding process, estimates of impact of OFT projects will be based where possible on monitored data and evidence from ex-post evaluations.
- 3.8 In order to embed outcome focused performance monitoring across the OFT, all projects are now encouraged to develop Impact Estimation Plans that clearly state what outcomes the project is designed to achieve, an estimate of their scale of impact, and a description of how to monitor it.
- 3.9 At the time of project completion, teams can use their plans to provide an estimate of project impact. This estimate will be reported in the annual report, and will contribute towards the '5 : 1' target.
- 3.10 After project completion, the Office will monitor some key indicators of project success, and adjust the initial estimate of impact if necessary. These adjusted estimates will be reported in future annual reports.
- 3.11 Some projects will be subject to ex-post evaluation which, in addition to providing general learning points in the conduct of our work, will also provide an evidence base to enable improved impact estimates for future projects.
- 3.12 Evidence from ex-post evaluation also informs OFT allocation of resources, as it provides new project proposals with information on the likely effect on consumer welfare in the market or sector where the intervention would take place. Impact (both direct and indirect) is one of the principles on the basis of which the OFT prioritises its work.

3.13 The following diagram shows how the '5 : 1' target is measured and how it fits with the wider context of performance management and some of the other impact targets (wider benefits) agreed with HM Treasury.



### Principles of outcome-focussed performance monitoring

3.14 A few key principles underlie our impact estimation, monitoring and evaluation programme:

- **Proportionality:** Direct resources towards seeking to monitor/measure the most important outcomes. Spend less time monitoring/measuring less important outcomes and smaller projects.
- **Transparency:** There is a great deal of uncertainty surrounding outcomes but transparent assumptions and methods can be challenged and improved.

- Comprehensive coverage of projects: Cover more OFT projects through embedding impact estimation across the organisation.
- Comprehensive coverage of outcomes: where possible we will measure not just direct impact in monetary terms, but also wider and non-financial benefits.

3.15 The last principle is especially important. Impact other than consumer savings contributes to the achievement of our other CSR07 targets, for example target (B) in the introduction. A project may lead to a number of outcomes that are not directly financial, for example psychological detriment, deterrence, or productivity (ease of entry, efficiency gains, scope for R&D and innovation). These may be aggravated or mitigated by case specific circumstances, such as the financial vulnerability of those affected.

3.16 All of these need to be recognised as successes/failures of a project even though they may not be quantified in monetary terms. Where quantitative monetary estimates are not possible, the OFT will need to rely on qualitative considerations (for example through bespoke surveys) and non-monetary indicators of performance (e.g. compliance, complaints, new entry etc).

## 4 MEASUREMENT OF IMPACT SO FAR

### What do we report each year? Estimates of impact in Annual Reports

- 4.1 The OFT has published estimates of impact for specific areas of its work in its Annual Report 2006/7<sup>20</sup>. The methodology behind the estimates is detailed in Positive Impact 06/07 (OFT 928).<sup>21</sup>
- 4.2 Areas of OFT work where monetary benefits could be estimated were limited at this time. In the future the OFT aims to increase the number of areas for which monetary estimates of impact will be available.
- 4.3 The OFT provides detail of its methodologies and assumptions in its annual Positive Impact note and where possible uses ranges to reflect uncertainty of the estimates. It cannot, however, provide project-specific estimates, assumptions and level of accuracy, because it has to protect confidential information from disclosure. In general, the more uncertain the assumptions, the more conservative they are.
- 4.4 Some elements of our methodology are also reviewed by academic experts and feedback on impact estimation methods is actively sought by presenting at conferences in the UK and abroad.
- 4.5 Most ex-post evaluations are carried out by independent external consultants. This in turn ensures objectivity over the effects of an intervention. Evaluation research is regularly published on the OFT website and disseminated through seminars. One of the aims of commissioning independent ex-post evaluations is to have informal audits of our ex-ante impact estimates and thus inform and improve our impact estimation methods.

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<sup>20</sup> Please see [www.of.gov.uk/shared\\_of/annual\\_report/438243/hc532.pdf](http://www.of.gov.uk/shared_of/annual_report/438243/hc532.pdf)

<sup>21</sup> Please see [www.of.gov.uk/about/benefits/evaluation/publications](http://www.of.gov.uk/about/benefits/evaluation/publications)

- 4.6 We will continue to seek appropriate ways to get external oversight of our impact estimation and ex-post evaluation work.

## **Methods of estimating direct financial benefits**

- 4.7 The following section outlines the methods the OFT has used for those areas where we have, so far, been able to estimate direct financial benefits to consumers.

### **Merger control**

- 4.8 As a matter of procedure, we have agreed with the CC that the OFT is responsible for estimating consumer savings from undertakings that are taken in lieu of a CC reference (UILs) and mergers abandoned after reference to the CC, and that the CC estimates the consumer savings from referred mergers which they subsequently block or amend.<sup>22</sup> This way the body closest to the final decision is responsible for estimating the decision's impact.
- 4.9 Where necessary, and as a matter of presentation, we have agreed to apportion consumer savings roughly in proportion to the past cost of running the merger regime between the OFT and the CC. As such, we will use a simple 80 : 20 rule under which we allocate to the OFT 20 per cent of consumer savings resulting from mergers blocked or amended by the CC, and 80 per cent of the consumer savings from UILs and mergers abandoned after referral<sup>23, 24</sup>
- 4.10 We use merger simulation to estimate the impact of the OFT's UIL decisions made in a given year. This allows us to present conservative

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<sup>22</sup> The CC started publishing estimates of consumer savings from the mergers it blocks or amends in its Annual Report 2005/6.

<sup>23</sup> The total impact from mergers that are abandoned in phase II is scaled down by 50 per cent , as we assume that only half of these cases would have been found to be SLCs had they gone ahead.

<sup>24</sup> It is hard to apportion benefits of a joined regime and as such any attempt to do so is subject to some degree of arbitrariness. We will continue to discuss with the CC best ways to apportion benefits from our joined work (mergers and market studies/investigations).

point-estimates of impact, rather than the lower-bound estimates we used in the past.

- 4.11 While developing our methodology we conducted a statistical sensitivity analysis, which suggested that, when aggregated across mergers, the level of uncertainty surrounding our estimates are fit for purpose. We believe the method strikes the right balance between accuracy and administrative overhead.
- 4.12 For a detailed explanation of the impact estimation methodology for mergers please see [www.offt.gov.uk/shared\\_offt/reports/401801/oft917.pdf](http://www.offt.gov.uk/shared_offt/reports/401801/oft917.pdf).
- 4.13 It is important to reiterate that the benefits flowing from our merger work are indicative of the value of our work and they are not a 'performance indicator' in its strictest sense. The OFT has no control on the number and types of mergers proposed and notified each year. In addition, the decision made by the OFT for each proposed merger (either to take UIL, refer a merger to the CC, or clear it) is unrelated to, and uninfluenced by, the 5:1 target.

### **CA98 enforcement**

- 4.14 We use a combination of established rules of thumb and case officer expertise to determine the likely price increases that would have taken place had the OFT not intervened.<sup>25</sup> Estimates of the likely duration of a cartel in the absence of OFT intervention take advantage of the fact that knowing how long a cartel has already existed provides some information on how long it is likely to exist in the future. We combine these to estimate the impact of CA98 decisions made during the

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<sup>25</sup> We use rules of thumb as our starting assumptions. For example, we assume that as cartels tend to raise prices by at least 10 per cent, competition enforcement that stops the cartel operating will reduce prices by the same extent. The aim of the monitoring and evaluation process described above is to verify whether these assumptions are valid, not only by monitoring prices but also other market developments that might affect them other than the OFT intervention.

financial year. For detail of this please see [www.offt.gov.uk/shared\\_offt/reports/evaluation/oft928.pdf](http://www.offt.gov.uk/shared_offt/reports/evaluation/oft928.pdf). We also seek ex-post evidence of price decreases through monitoring and case studies (see for example [www.dti.gov.uk/files/file13299.pdf](http://www.dti.gov.uk/files/file13299.pdf)).

## Scams

- 4.15 The consumer losses from a scam are divided by the duration of the scam to obtain a 'flow' of detriment. We then estimate how long the scam would have continued (expected duration). This is of course very difficult to predict with accuracy. It is based on the scam's duration and other available information. Consumer savings are then calculated as: flow of detriment multiplied by expected duration. For detail of underlying assumptions please see [www.offt.gov.uk/shared\\_offt/reports/evaluation/oft928.pdf](http://www.offt.gov.uk/shared_offt/reports/evaluation/oft928.pdf).

## Market studies

- 4.16 Estimates of value for money for each market study in each financial year are based on the embedding approach illustrated above. They also draw on information from ex-post evaluations carried out by independent parties. So far we have carried out two ex-post evaluations. Methods used in ex-post evaluations depend on the market study in question. In the evaluation of taxi market study, the contractor calculated their estimates of impact through a Difference-in-Difference study of waiting times and taxi utilisation in a number of Local Authorities (LAs), combined with a LAs survey. In the evaluation of the car warranties market study, the contractor based its estimated benefits on increased ability to 'shop around' for the best price following the removal of warranty restrictions. This was assessed using a survey of consumers coupled with in-depth interviews, against a counterfactual which accounted for external influences (such as European Commission (EC) regulation) in the market.
- 4.17 For the evaluation of the Car Warranties market study, please see [www.offt.gov.uk/shared\\_offt/about\\_offt/oft852.pdf](http://www.offt.gov.uk/shared_offt/about_offt/oft852.pdf), and for the evaluation of Taxis market study, please see

[www.offt.gov.uk/shared\\_offt/reports/Evaluating-OFTs-work/oft956.pdf](http://www.offt.gov.uk/shared_offt/reports/Evaluating-OFTs-work/oft956.pdf) for more detail.

- 4.18 In forthcoming 'Positive Impact' notes the OFT will present joined estimates with the CC for the market studies/investigation regime as a whole.
- 4.19 As with mergers we use a simple 80:20 rule, where the larger share of benefits goes to the main agency (for example the CC for market investigation references and the OFT for reviews). Where a market investigation reference is not an option considered in an OFT market study, any estimates of consumer savings will not be apportioned to the CC.<sup>26</sup>
- 4.20 The CC and the OFT have different methods to calculate financial benefits from market investigation/studies: 1) the CC publishes estimates of 'total consumer detriment arising from market features against which the CC took action, rather than 'likely consumer benefit generated by the intervention' and 2) the CC publishes estimates in the year the report is published, whereas the OFT publishes estimates for the year the market study's recommendations are implemented. The OFT will not make adjustments to the CC estimates, on the grounds of proportionality and the principle that it is best if each agency adopts whatever estimates are made by the agency closest to the intervention without subjecting them to further scrutiny.

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<sup>26</sup> The agreed split is broadly based on costs faced by the two organisations in this area of work.