



# **Trading Standards impact**

An evaluation of the impact of the fair trading work of local authority Trading Standards Services in the UK

June 2009

OFT1085

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## FOREWORD

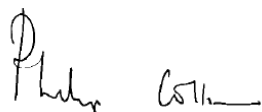
The current economic climate means that the work that local authority Trading Standards Services (TSS) do to promote and maintain a fair trading environment in their local areas and across the UK is more important than ever.

As the findings of this report show, TSS prevent hundreds of millions of pounds from being lost every year to rogue traders and businesses that break the law by trading unfairly. As a result, all of us, as consumers, are protected from harmful business practices and the financial loss this brings.

By tackling unfair trading practices, TSS help ensure that businesses that operate fairly and responsibly do not suffer a commercial disadvantage against those that flout the law, so that efficiency, innovation and customer service are rewarded.

Across their fair trading work, TSS are clearly making a hugely positive contribution to the economic prosperity of the UK. This evaluation, which estimates that consumer savings of at least £347m are delivered every year by TSS fair trading work, is an important step forward in understanding the size of that impact.

We encourage individual TSS to use the methodologies that are set out in this report to estimate the consumer savings that they deliver through their own fair trading work. The results will enable them to clearly articulate the positive impact they have while also helping them to ensure that they continue to target their resources where they are likely to achieve the greatest impact.



**Philip Collins**  
Chairman  
Office of Fair Trading



**Gareth Thomas**  
Minister for Trade, Development,  
and Consumer Affairs

# 1 EXECUTIVE SUMMARY

## Introduction

- 1.1 This document describes the outcomes of work that the Office of Fair Trading (OFT) has undertaken in partnership with local authority Trading Standards Services (TSS), and with assistance from the Local Authority Coordinators of Regulatory Services (LACORS), to evaluate the impact of the work that TSS in the UK do to promote and maintain a fair trading environment.
- 1.2 Unfair trading practices, against which TSS take action, include, for example, the provision of goods or services without reasonable care and skill, misleading or false claims or omissions, aggressive or coercive selling, use of unfair contract terms, and failure to provide consumers with statutory cancellation rights.

## Consumer savings of TSS fair trading work

- 1.3 We estimate that TSS work to tackle unfair trading practices and to advise and assist members of the public who suffer consumer problems delivers direct savings to consumers of at least £347m per year.
- 1.4 We estimate that for every £1 that TSS spend on these aspects of their work, they deliver direct consumer savings of at least £6.

**Table 1: Estimated consumer savings and associated costs of TSS fair trading work**

|                       | Estimated annual consumer savings | Estimated annual delivery costs of work assessed | Benefit-cost ratio |
|-----------------------|-----------------------------------|--|--------------------|
| TSS fair trading work | £347m                             | £58m   | 6:1                |

## **TSS evaluation of their consumer savings**

- 1.5 The methodologies that have been developed and used to produce this impact assessment provide all TSS with a robust and commonly agreed means of evaluating the impact of a core area of their work. The methodologies are set out in detail in this report. In addition, the OFT has, alongside this report, published an impact assessment calculator. The calculator enables individual TSS to easily estimate the consumer savings delivered by their fair trading work by inputting specified case data. The calculator can be downloaded from the OFT website at:  
[http://www.offt.gov.uk/oft\\_at\\_work/partnership\\_working/trading-standards/](http://www.offt.gov.uk/oft_at_work/partnership_working/trading-standards/).

## **Structure of this document**

- 1.6 Section 2 of this report sets out the purpose and scope of this impact estimation. Section 3 provides an overview of how the evaluation was undertaken. Sections 4 and 5 set out our estimates for the consumer savings that result from TSS work to tackle unfair trading practices and the provision of advice and assistance to consumers respectively, including explanations of the methodologies that we used to calculate the estimates. Section 6 sets out estimates for the cost of TSS delivery of these two aspects of their work. Section 7 sets out the conclusions of the impact evaluation, including estimated benefit to cost ratios.

## **2 INTRODUCTION**

### **Context**

- 2.1 TSS are funded by and accountable to local authorities and they work to local priorities set by councillors which focus on the particular needs of the local community, as well as national priorities set by government departments and agencies. TSS enforce a broad range of legislation which, as well as fair trading, often includes responsibility for animal health, food safety and underage sales of tobacco, alcohol, knives and fireworks.
- 2.2 The OFT is the UK's competition and consumer protection authority. The OFT works in partnership with TSS across the UK to promote and protect the interests of consumers and businesses. The OFT also takes a role in providing strategic leadership and support to TSS in relation to the fair trading remit that the OFT and TSS share. This evaluation is a product of that strategic leadership and support role.

### **Purpose of this impact evaluation**

- 2.3 The consumer savings figures set out in this document provide strong evidence of the contribution that TSS make to the economic well-being of local communities and the delivery of first-rate services to consumers and businesses. This represents a potentially valuable source of information for policy and funding decision-making processes.
- 2.4 We anticipate that TSS will use the results of this evaluation to help articulate and evidence, within their local authorities and regions, the magnitude of their positive impact, thereby supporting their cases for the resources required to sustain effective service delivery. This is likely to be particularly important at a time of increasing competition for scarce funds.
- 2.5 As well as reporting the findings of the evaluation, this report sets out the methodologies that we used to undertake the evaluation

exercise. These methodologies provide TSS, for the first time, with an agreed and consistent way of calculating evidence-based figures for the consumer savings delivered by their work to support and promote a fair trading environment in their local areas.

- 2.6 We encourage TSS to use the methodologies to estimate the impact of their work and to use the results for the purposes of improving external accountability, for example by evidencing the benefits of their work. We also encourage TSS to use the methodologies for internal management, for example by facilitating better case selection and prioritisation, and staff motivation.
- 2.7 To help TSS to evaluate their own work – or aspects of it, such as an individual enforcement case – the OFT has, alongside this report, published an impact assessment calculator. For TSS that input specified case data, the calculator will automatically apply the methodologies set out in this report to estimate the consumer savings delivered by the TSS's work. The case data that TSS will need in order to carry out a full assessment of their fair trading work is set out at Annex C. TSS can download the calculator from the OFT website at:  
[http://www.offt.gov.uk/oft\\_at\\_work/partnership\\_working/trading-standards/](http://www.offt.gov.uk/oft_at_work/partnership_working/trading-standards/).

## **Scope of the evaluation**

- 2.8 The scope of this evaluation is limited to the financial impacts of TSS fair trading work. TSS also have a key role in influencing health and well-being, crime and disorder and environmental outcomes in their work relating to food, animal health, environmental protection, and tackling crime.

## **TSS across the UK**

- 2.9 Geographically, the coverage of the evaluation is TSS in England, Scotland, Wales and Northern Ireland.

## **Non-inclusion of regional teams**

2.10 The assessment does not include work undertaken by regional trading standards teams, such as illegal money lending and Scambuster teams. Elements of the methodologies that we have used may, however, be applicable to some of the work of these teams.

## **Fair trading work of TSS**

2.11 The evaluation covers two key categories of TSS fair trading work: tackling unfair trading practices and advising and assisting consumers. More detail on the scope of these areas of activity is set out in sections 4 and 5 of this report respectively.

## **Financial impact**

2.12 Our estimates of consumer savings only include direct financial impacts of TSS work. TSS work can often deliver significant non-financial benefits, for example by preventing or reducing anti-social behaviour, physical harm, or psychological detriment, including the stress and loss of confidence that can accompany consumer problems. Such non-financial benefits are not, however, included in this evaluation.

## **Deterrent effects**

2.13 We only estimate the savings that result from the actions of TSS or from actions by others pursuant to TSS action.

2.14 It is likely that TSS work to tackle unfair trading practices has considerable deterrent effects in that some traders are deterred from adopting or continuing unfair practices due to the possibility of a TSS taking action, rather than because a TSS has actually taken action. We consider that the magnitude of deterrent effects may be several times greater than the effects estimated in this report. However, we have not attempted to quantify such deterrent effects.

### **3 METHODOLOGY**

#### **Introduction**

- 3.1 In estimating TSS impact we have used the best information currently available to us, including records of complaints held on the Consumer Direct central database, data obtained and developed in the context of the OFT's consumer detriment research, case data gathered from TSS, and findings from Consumer Direct customer satisfaction surveys.
- 3.2 Where evidence is weak, the assumptions underlying our estimates are conservative. Furthermore, there are some aspects of TSS impact for which we have not been able to estimate consumer savings. We therefore consider the resulting estimates for consumer savings to be lower-bound estimates.

#### **Development of the estimation methodologies**

- 3.3 The OFT worked closely with TSS to develop the methodologies that we have used to evaluate TSS fair trading work. For example, structured workshops were held with TSS representatives to discuss emerging thinking in spring 2008 and a consultation with all TSS on draft proposals was completed in summer 2008. The development of the methodologies and the completion of the evaluation were overseen by a steering committee comprising representatives from the OFT, Warwickshire TSS, City of York TSS, East Sussex TSS, LACORS and the LBRO.
- 3.4 In addition, the methodology used to estimate the impact of TSS interventions aimed at tackling unfair trading practices was subject to economic review by the OFT's Academic Advisor. The review involved a thorough look at the different aspects of the methodology and confirmed that it was economically and technically sound.

## **Baseline assumptions**

- 3.5 A number of assumptions underpin our evaluation of the impact of TSS fair trading work.
- 3.6 TSS work to tackle unfair trading practices and to provide advice and assistance to consumers aims to protect consumers from detriment associated with breaches of fair trading legislation. For this reason, we have estimated the savings to consumers of TSS work in these areas.
- 3.7 We have also estimated the magnitude of some financial impacts that result from TSS work – such as fines – that do not constitute direct consumer savings. These are reported in section 4 as 'Other financial impacts' and are not included in the estimates for consumer savings.
- 3.8 We have not attempted to identify or estimate any extra costs that businesses may have passed on to consumers following TSS decisions.
- 3.9 Where possible, we base our estimates for consumer savings on information, evidence and data directly relating to work carried out by TSS. Where relevant information is not available, we have made conservative assumptions based on the best information available. We do not claim that our estimates of impact exactly capture the consumer savings delivered by TSS. Rather, it is unlikely that less than our estimate has been saved.

## **The sample used**

- 3.10 In order to estimate the impact of the fair trading work of TSS across the UK, we applied the impact assessment methodologies described in sections 4 and 5 of this report to the work undertaken by a sample group of TSS during the calendar year 2007. We then used the results obtained from the sample group of TSS to estimate the consumer savings delivered by TSS across the UK.

- 3.11 The exact size and composition of the sample group varied slightly for each of the categories of TSS fair trading work evaluated due to differences in the availability of data. However, in each case the sample included a cross-section of smaller and larger TSS (in terms of expenditure and the population within the local authority area), situated within both unitary and two-tier local authorities, and covering urban, rural and mixed population areas across the UK.
- 3.12 Further information on the size of the sample group used to evaluate each category of TSS fair trading work is set out in the relevant sections of this report.

## **4 TACKLING UNFAIR TRADING PRACTICES**

### **Introduction**

- 4.1 This section sets out details of our evaluation of TSS work to tackle unfair trading practices.
- 4.2 Unfair trading practices include the provision by traders of goods or services without reasonable care and skill, misleading or false acts or omissions, aggressive or coercive selling, use of unfair contract terms, and failure to provide consumers with statutory rights, such as cancellation rights.
- 4.3 TSS work to tackle breaches of legislation relating to the accuracy of weights and measures, counterfeit and pirated goods, product safety, food standards, animal health, and the sale of age-restricted goods are not included in this evaluation.

### **Consumer savings**

- 4.4 We estimate that the work of TSS in the UK to tackle unfair trading practices delivers direct consumer savings of at least £228m a year.
- 4.5 This estimate is highly conservative because:
- The estimate does not include any deterrent effects (see paragraphs 2.13 – 2.14), which we consider are likely to be several times the consumer savings identified, or any effects resulting from increased consumer confidence. Nor are non-financial impacts, such as psychological detriment (see paragraph 2.12) included.
  - The assessment does not include the prevention by TSS of 'unrevealed' consumer detriment – that is, detriment suffered by consumers without their being aware of it. An example would be where a consumer unknowingly pays above the market-value for a car because the car has been 'clocked'.

- The assessment does not specifically include some aspects of TSS work to tackle unfair trading practices – such as the operation of assured trader schemes or the provision of education and guidance material to traders generally, for example, via the internet.

## **Methodology**

4.6 We used different methodologies to estimate the consumer savings that result from two sub-categories of TSS work to tackle unfair trading practices. These sub-categories of activity – which we describe as 'trader interventions' and 'disruption' – and the methodologies that we used to estimate the consumer savings that they deliver are set out below.

### **Trader interventions**

4.7 We use the term 'trader intervention' to describe an action undertaken by a TSS to prevent or discourage a trader from continuing to employ an unfair trading practice. For example, a trader intervention may constitute criminal or civil enforcement action, obtaining undertakings, and/or giving cautions, warnings or advice to a trader.

4.8 The common aim of trader interventions is to reduce or eliminate the consumer detriment that flows from an unfair trading practice. Our methodology for estimating the consumer savings that result from trader interventions is therefore based on the difference between the consumer detriment caused by a trader prior to a TSS completing a trader intervention and the consumer detriment caused by the trader after the intervention.

4.9 We estimated the consumer savings resulting from TSS trader interventions as follows:

4.10 We gathered details of the trader interventions that were completed by a sample group of TSS between 1 January and 31 December

2007. For each individual trader intervention, we identified the number of consumer complaints that were made against the trader during the 12 month period before the TSS completed the trader intervention ( $C_b$ ). We ascertained this figure by searching the Consumer Direct central database<sup>1</sup> and the complaints recorded on the relevant TSS's own database.

4.11 In the same way, we identified the number of complaints made against the trader during a 12 month period starting three months<sup>2</sup> after the trader intervention ( $C_a$ ). There are two reasons for allowing a three month period between the trader intervention and the beginning of the search period: firstly, to allow for a likely time lag between consumers first encountering a problem and reporting it to Consumer Direct or a TSS, and, secondly, so as to not include any possible spike in complaints immediately after the intervention that may have been caused by an increase in consumer awareness following any publicity surrounding the intervention.

4.12 Before making a comparison of complaints before and after the intervention, we made an adjustment to compensate for the general increase in the number of complaints that were reported to Consumer Direct over the time period concerned. Over the time period of our searches (that is, 1 January 2006 to 31 March 2009), the overall volume of complaints reported to Consumer Direct increased by an average of 11 per cent a year<sup>3</sup>. Therefore, an adjustment factor ( $A$ ) with a value of 1.11 was multiplied by the number of complaints made against the trader during the 12 months before the trader intervention ( $C_b$ ) to produce a 'counterfactual'. This is an estimate for the number of complaints that could reasonably be expected to have been made about the trader, during the following 12 months, had the TSS not made the intervention.

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<sup>1</sup> Consumer Direct is a national consumer advice service. The Consumer Direct central database collects and consolidates data relating to all complaints made to Consumer Direct contact centres.

<sup>2</sup> So, if the trader intervention was completed on 3 May 2007, we searched for complaints between 3 August 2007 and 2 August 2008 inclusive.

<sup>3</sup> Due to increased awareness of Consumer Direct among consumers.

- 4.13 Where there was a reduction in complaint numbers after the trader intervention ( $C_a$ ) relative to the counterfactual, we multiplied the reduction in the number of complaints by each of the following:
- An estimated average amount of consumer detriment ( $D$ ) suffered by each consumer who experienced a problem with the trader
  - A multiplier ( $M$ ) which reflects the fact that most consumers who experience a problem with a trader do not report it to Consumer Direct or a TSS
  - A multiplier ( $T$ ) to reflect an estimate of the number of years that the unfair trading practice could be expected to have continued for, had the TSS not intervened.
- 4.14 We estimated the average detriment ( $D$ ) suffered by consumers who experienced a problem with the trader by first ascertaining the average payment value recorded against the relevant consumer complaints on the Consumer Direct and TSS databases. We then applied a formula to this average payment value to obtain an estimate for the average detriment suffered by consumers who experienced a problem. Annex A sets out the formula that we used in full.
- 4.15 The formula reflects the fact that the payment values recorded on the Consumer Direct central database do not typically equate to the actual detriment suffered by the consumers who reported the complaints<sup>4</sup>. For example, an average payment value of £5,000 may be recorded against complaints about a seller of second-hand cars. However, the average amount of detriment suffered by the consumers making the complaints is likely to be lower than this figure. Using the formula, an average payment value of £5,000 would result in an estimate for average detriment ( $D$ ) of £479. A table

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<sup>4</sup> The formula was developed using data gathered by the OFT's consumer detriment research project: 'Consumer detriment: Assessing the frequency and impact of consumer problems with goods and services', OFT, April 2008, [http://www.of.gov.uk/shared\\_of/reports/consumer\\_protection/oft992.pdf](http://www.of.gov.uk/shared_of/reports/consumer_protection/oft992.pdf)

setting out a range of average payment amounts and their associated estimated average detriment amounts, calculated using the formula, is at Annexe A.

4.16 The multiplier ( $M$ ) reflects the fact that, in general, only a small proportion of consumers who experience a problem make a complaint to either Consumer Direct or a TSS. OFT research<sup>5</sup> indicates that the likelihood that a consumer will complain about a particular problem is sector specific. That is, the ratio of problems to complaints varies according to the sector that the trader operates in. For example, in general, a consumer who experiences a problem with a trader in the house fittings and appliances sector is more likely to make a complaint to Consumer Direct or a TSS than a consumer who experiences a problem with a trader in the professional and financial services sector. The value of the multiplier ( $M$ ) that we used for each trader intervention therefore depended on the sector in which the trader in question operated. A list of sectors and their associated multipliers is included at Annexe B.

4.17 Finally, we made what we consider to be a conservative assumption that, on average, had the TSS not intervened, the unfair trading practice would have continued to cause consumer detriment for another two years at the same rate as during the 12 month period prior to TSS intervention<sup>6</sup>. We therefore used a figure of two for the multiplier ( $T$ ).

4.18 The methodology can be set out mathematically as follows:

$$CS = (AC_b - C_a).D.M.T$$

Where:

$$CS = \text{Consumer savings}$$

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<sup>5</sup> 'Consumer detriment: Assessing the frequency and impact of consumer problems with goods and services'. See footnote 4.

<sup>6</sup> This assumption is based on the outcomes of discussions with Trading Standards Officers and Heads of Trading Standards Services regarding what they judge to be a reasonable standard estimate.

- $C_b$  = Total number of complaints recorded against the trader in the 12 month period before the trader intervention
- $C_a$  = Total number of complaints recorded against the trader in the 12 month period starting 3 months after the trader intervention
- $A$  = Adjustment factor representing the general rise in complaints to CD and TSS
- $D$  = Average amount of detriment suffered by consumers who experienced a problem with the trader
- $M$  = Sector specific multiplier that reflects the fact that only a small proportion of consumers who experience a problem complain
- $T$  = Number of years for which the practice would be expected to continue in the absence of the TSS intervention

4.19 A case study, which describes the application of the methodology to an example of a trader intervention, is set out below:

#### **Trader intervention case study**

In August 2007, East Sussex TSS made a formal approach to a home improvements business regarding reports of poor workmanship, overcharging and mis-selling. Using their powers under the Enterprise Act, the TSS asked the trader to remove various unauthorised and misleading logos from their advertising, advised the trader about the pattern of complaints that had been made by consumers, and warned of potential court action against the trader.

Following the intervention by East Sussex TSS, the number of complaints about the trader fell significantly and, in June 2008, the business ceased to trade. After the closure of the business, there was also a dramatic fall in reported problems arising from cold callers in the trader's local area, which has a high proportion

of elderly residents.

Fourteen consumers had complained to Consumer Direct and East Sussex TSS about the trader during the 12 month period prior to the intervention and four complained about the company during the 12 month period starting three months after the intervention. The average payment value for the complaints was £4539, meaning an estimated average detriment amount, using the formula at Annexe A, of £451 per problem. The sector specific multiplier for the house fittings and appliances sector is 22.8, as shown at Annexe B.

Using the impact estimation methodology, we estimate that East Sussex's intervention against the trader delivered direct consumer savings of £237,327. This is shown mathematically below:

$$\begin{aligned} \text{CS} &= (\text{A.Cb} - \text{Ca}).\text{D.M.T} \\ &= (1.11 \times 14 - 4) \times \text{£}451 \times 22.8 \times 2 \\ &= \text{£}237,327 \end{aligned}$$

4.20 We applied the methodology to each of the trader interventions that were completed by the sample group of TSS during 2007 and then aggregated the results. This produced an estimate for the consumer savings delivered by the sample group's trader interventions of £29.8m.

4.21 We used statistics on TSS expenditure and staff resourcing<sup>7</sup> to estimate that the work undertaken by the TSS within the sample group represented approximately 13.49 per cent of all TSS activity across the UK. We therefore applied a multiplier of 7.41 to scale up the consumer savings estimate from the sample group to all TSS across the UK.

4.22 We therefore estimate that the trader interventions completed by TSS across the UK during 2007 delivered direct consumer savings of at least £221m.

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<sup>7</sup> Chartered Institute of Public Finance and Accounting (CIPFA), 'Trading Standards Statistics 2007', SIS Ref. 67.08

## Disruption

- 4.23 Many TSS carry out activities aimed at 'disrupting' the activities of 'rogue traders'. For example, a TSS might in response to a tip-off attend a consumer's home and help to prevent the consumer from completing a transaction that was highly likely to have resulted in consumer detriment. In such cases, a TSS delivers consumers savings by preventing an individual consumer from incurring a financial loss.
- 4.24 We estimated the consumer savings that are delivered by this type of 'disruption' work by gathering details of such work carried out by a sample group of TSS. We asked each of the TSS in the sample to report the estimated value of each potential rogue trader transaction that they prevented between 1 January and 31 December 2007.
- 4.25 The aggregated value of all of the transactions disrupted by TSS in the sample group during 2007, and therefore the estimated consumer savings resulting from their disruption activity, was £921,761.
- 4.26 Again, we used statistics on TSS expenditure and staff resourcing<sup>8</sup> to estimate that the work undertaken by the TSS within the sample group represented approximately 13.04 per cent of all TSS activity across the UK<sup>9</sup>. We therefore applied a multiplier of 7.67 to scale up the consumer savings estimate from the sample group to all TSS across the UK.
- 4.27 We therefore estimate that disruption work carried out by TSS across the UK during 2007 delivered direct consumer savings of £7m.

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<sup>8</sup> See footnote 7.

<sup>9</sup> The estimate for the size of the sample group is different to that for the trader intervention methodology (described at paragraph 4.21) since the composition of the sample group varied slightly for each methodology – see paragraph 3.11.

## **Consumer savings resulting from TSS work to tackle unfair trading practices**

4.28 In total, we estimate that the work that TSS across the UK do to tackle unfair trading practices delivers direct consumer savings of at least £228m. This figure comprises the estimated savings that result from both trader interventions and disruption work carried out by TSS.

## **Other financial impacts**

4.29 In addition to the consumer savings described above, some TSS work to tackle unfair trading practices has additional financial impacts. These include the imposition of fines, and the award of investigation costs and proceeds of crimes orders against traders that are found to have been trading unfairly pursuant to a TSS prosecution. Such monies are recovered from unfair traders and awarded to the exchequer, the court, and the investigatory/enforcing TSS. We estimate the total amount of these monies to have been in excess of £3m for TSS actions in relation to unfair trading practices between 1 January and 31 December 2007.

4.30 It is likely that the amount of such monies will be considerably higher for subsequent years due to the increasing use of proceeds of crime orders by TSS. For example, we are aware of the completion, in early 2009, of a single proceeds of crime order for over £3m that was conducted jointly by a TSS and the Assets Recovery Agency.

## **5 ADVISING AND ASSISTING CONSUMERS**

### **Introduction**

- 5.1 This section sets out details of our evaluation of the provision of advice and assistance to consumers by TSS.
- 5.2 The evaluation includes consumer advice and assistance given by TSS pursuant to referrals or notifications from Consumer Direct as well as advice and assistance given to consumers who made direct contact with a TSS, including by telephone, email, letter and in person.

### **Consumer savings**

- 5.3 We estimate that the provision of consumer advice and assistance by TSS in the UK delivers direct consumer savings of at least £119m a year.
- 5.4 This estimate is conservative because:
- The evaluation does not include the impact of work undertaken by TSS to inform and educate consumers generally about their rights, for example through leaflets, information packs and via websites.
  - The evaluation does not measure the extent to which consumers, having received advice and assistance from a TSS regarding a current problem, are more likely to be able to resolve future consumer problems without assistance.

### **Methodology**

- 5.5 The provision of advice and assistance by TSS helps members of the public to resolve their consumer problems and, where appropriate, obtain redress. Redress may take the form of a refund, compensation,

or the proper provision of goods or services by a trader. Our estimate for the consumer savings that result from TSS provision of consumer advice and assistance are based on the monetary value of redress obtained by consumers who receive advice and assistance from a TSS.

- 5.6 We estimated the consumer savings resulting from TSS provision of consumer advice and assistance as follows:
- 5.7 We asked a sample of TSS to inform us how many consumers they provided advice and assistance to between 1 January and 31 December 2007 (M).
- 5.8 Since not all consumers who receive advice or assistance from a TSS will succeed in fully resolving their problem, we employed an adjustment factor with the value of 0.58. This reflects the percentage of consumers who, on average, have their problem resolved following advice or assistance from a TSS<sup>10</sup>. Applying this adjustment factor to the number of advice and assistance cases completed by a TSS produced an estimate for the number of consumers who had a consumer problem fully resolved further to receiving advice or assistance from the TSS.
- 5.9 We then multiplied that figure by £584, which represents the estimated average benefit consumers receive from having a consumer problem resolved<sup>11</sup>. This produced an estimate for the total consumer savings that were delivered by the provision of advice and assistance to consumers by the TSS.

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<sup>10</sup> Consumer Direct Satisfaction Surveys – Waves 4, 6, 7, 8 and 10: on average 58 per cent of consumers who had contacted a TSS about a consumer problem reported that their problem had been fully resolved. These quarterly surveys are carried out by IFF Research on behalf of Consumer Direct. Published summaries of the surveys are available at <http://www.consumerdirect.gov.uk/partners/marketing/research/customer-satisfaction>.

<sup>11</sup> Consumer Direct Satisfaction Surveys – Waves 4, 6, 7, 8 and 10: consumers whose problem had been resolved were asked: ‘Taking everything into account, could you put a value (in pounds) on how much resolving your problem has been worth to you?’ Excluding those consumers who said they didn’t know and a small number of outliers where consumers appeared to considerably overestimate the benefit, we calculated the estimated mean consumer benefit of solving a problem to be £584.

5.10 The methodology can be set out mathematically as follows:

$$CS = N \times 0.58 \times \text{£}584.$$

Where:

*CS* = Consumer savings

*N* = Number of consumers advised and assisted

*0.58* = Adjustment factor representing the estimated percentage of advice cases where contact with the TSS led to the consumer having their problem fully resolved

*£584* = Average consumer benefit from having a consumer problem resolved

5.11 In total, the sample group of TSS advised and assisted 52,137 consumers during 2007. Applying the methodology above to each of the TSS in the sample group, produces an aggregated estimate for the direct consumer savings delivered by the provision of advice and assistance to consumers by TSS in the sample group of at least £17.7m.

5.12 Using statistics on TSS expenditure and staff resourcing<sup>12</sup>, we estimated that the work undertaken by the sample group of TSS represented 14.83 per cent of all TSS activity across the UK<sup>13</sup>. We therefore applied a multiplier of 6.74 to scale up the consumer savings estimate from the sample group to all TSS across the UK.

5.13 We therefore estimate that the provision of advice and assistance to consumers by TSS across the UK during 2007 delivered direct consumer savings of at least £119m.

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<sup>12</sup> See footnote 7.

<sup>13</sup> The estimate for the size of the sample group is different to that described at paragraphs 4.21 and 4.26, for the trader intervention and disruption methodologies respectively, since the composition of the sample group varied slightly for each methodology – see paragraph 3.11.

## 6 TSS COSTS

### Introduction

- 6.1 In this section we present the estimated costs of delivering the TSS fair trading work for which we have estimated consumer savings.
- 6.2 We asked a sample group of TSS to report their expenditure on the two core categories of fair trading activity that we evaluated. From the results obtained from the sample group, we extrapolated the estimates below for all TSS across the UK.

### Estimated costs of delivering TSS fair trading work

- 6.3 The table below sets out estimated costs of TSS work to tackle unfair trading practices and provide advice and assistance to consumers during the financial year 2007/08. These estimates include the labour costs of the relevant staff, as well as a share of overheads and management costs in proportion to employee headcount.

**Table 2: Estimated annual costs of delivering TSS fair trading work across the UK**

|                                   | Estimated annual TSS costs by category of fair trading activity |
|-----------------------------------|---|
| Tackling unfair trading practices | £41m  |
| Advising and assisting consumers  | £17m  |
| <b>Total</b>                      | <b>£58m</b>   |

## 7 CONCLUSIONS

### Consumer savings

- 7.1 The table below summarises our conservative estimates for the direct consumer savings that result from the fair trading work of TSS in the UK and the associated benefit-cost ratios of the work.

**Table 3: Estimated consumer savings and associated costs of TSS fair trading work across the UK**

|                                   | Estimated annual consumer savings | Estimated annual TSS costs | Benefit-cost ratio |
|-----------------------------------|-----------------------------------|----------------------------|--------------------|
| Tackling unfair trading practices | £228m                             | £41m                       | 6:1                |
| Advising and assisting consumers  | £119m                             | £17m                       | 7:1                |
| <b>Total</b>                      | <b>£347m</b>                      | <b>£58m</b>                | <b>6:1</b>         |

### Other financial impacts

- 7.2 In addition to the consumer savings described above, TSS work to tackle unfair trading practices has additional financial impacts, such as the imposition of fines, and the award of investigation costs and proceeds of crimes orders against businesses that engage in criminal behaviour. Such monies are recovered from non-compliant businesses and paid to the exchequer, the courts, and the investigatory/enforcing TSS. The estimated annual amounts of these monies (which are not included in the consumer savings figures above) are set out below:

**Table 4: Other financial impacts**

|                                   | Fines imposed | Costs awarded | Proceeds of crime orders | <b>Total</b> |
|-----------------------------------|---------------|---------------|--------------------------|--------------|
| Tackling unfair trading practices | £1.5m         | £0.6m         | £0.9m                    | <b>£3m</b>   |

## A AVERAGE PAYMENT AMOUNTS AND ESTIMATED AVERAGE DETRIMENT

A.1 The following formula was used to derive an estimate for the average detriment suffered by consumers who experienced a problem from the average payment value that was recorded against complaints reported to Consumer Direct and/or the TSS about the trader:

$$\log_{10}(D) = 0.3354 + 0.6340\log_{10}(P)$$

Where  $D$  is the average detriment and  $P$  is the average payment value<sup>14</sup>.

A.2 To give an indication of the relationship between average payment values and the estimated detriment amounts that result from applying the formula, a range of values are set out below:

| Average payment amount ( $P$ ) | Estimated average detriment ( $D$ ) |
|--------------------------------|-------------------------------------|
| £10                            | £9                                  |
| £25                            | £17                                 |
| £50                            | £26                                 |
| £75                            | £33                                 |
| £100                           | £40                                 |
| £150                           | £52                                 |
| £200                           | £62                                 |
| £250                           | £72                                 |
| £300                           | £81                                 |
| £350                           | £89                                 |
| £400                           | £97                                 |
| £450                           | £104                                |
| £500                           | £111                                |
| £550                           | £118                                |
| £600                           | £125                                |

| Average payment amount ( $P$ ) | Estimated average detriment ( $D$ ) |
|--------------------------------|-------------------------------------|
| £3,000                         | £347                                |
| £3,500                         | £382                                |
| £4,000                         | £416                                |
| £4,500                         | £448                                |
| £5,000                         | £479                                |
| £6,000                         | £538                                |
| £7,000                         | £593                                |
| £8,000                         | £646                                |
| £9,000                         | £696                                |
| £10,000                        | £744                                |
| £11,000                        | £790                                |
| £12,000                        | £835                                |
| £13,000                        | £878                                |
| £14,000                        | £921                                |
| £15,000                        | £962                                |

<sup>14</sup> This log-linear relationship was found to best fit the data in OFT's Consumer Detriment research.

| <b>Average payment amount (<i>P</i>)</b> | <b>Estimated average detriment (<i>D</i>)</b> |
|--|---|
| £650                                     | £131  |
| £700                                     | £138  |
| £750                                     | £144  |
| £800                                     | £150  |
| £850                                     | £156  |
| £900                                     | £162  |
| £950                                     | £167  |
| £1,000                                   | £173  |
| £1,250                                   | £199  |
| £1,500                                   | £223  |
| £1,750                                   | £246  |
| £2,000                                   | £268  |
| £2,500                                   | £309  |

| <b>Average payment amount (<i>P</i>)</b> | <b>Estimated average detriment (<i>D</i>)</b> |
|--|---|
| £16,000                                  | £1,002  |
| £17,000                                  | £1,041  |
| £18,000                                  | £1,080  |
| £19,000                                  | £1,117  |
| £20,000                                  | £1,154  |
| £25,000                                  | £1,330  |
| £30,000                                  | £1,492  |
| £35,000                                  | £1,646  |
| £40,000                                  | £1,791  |
| £45,000                                  | £1,930  |
| £50,000                                  | £2,063  |
| £75,000                                  | £2,668  |
| £100,000                                 | £3,202  |

## **B SECTOR SPECIFIC MULTIPLIERS**

B.1 The table below sets out the range of sector specific multipliers (*M*) used in the estimation of consumer savings resulting from TSS trader interventions. The multipliers are based on analyses of the OFT's research on consumer detriment, data taken from the Consumer Direct database, and the information obtained from the sample group of TSS.

| <b>Sector code</b> | <b>Sector</b>                       | <b>Sector specific multiplier (<i>M</i>)</b> |
|--------------------|-------------------------------------|--|
| A                  | House fittings and appliances       | 22.8   |
| B                  | Other household requirements        | 56.9   |
| C                  | Personal goods and services         | 24.7   |
| D                  | Professional and financial services | 59.3   |
| E                  | Transport                           | 14.0   |
| F                  | Leisure                             | 32.0   |

B.2 Due to a lack of available data, it was not possible to calculate multipliers for the 'Commercial goods and services' (sector code G) and 'Broadcasting' (sector code H) sectors. However, none of the trader interventions that were reported to us by the sample group related to traders operating in either of these sectors.

