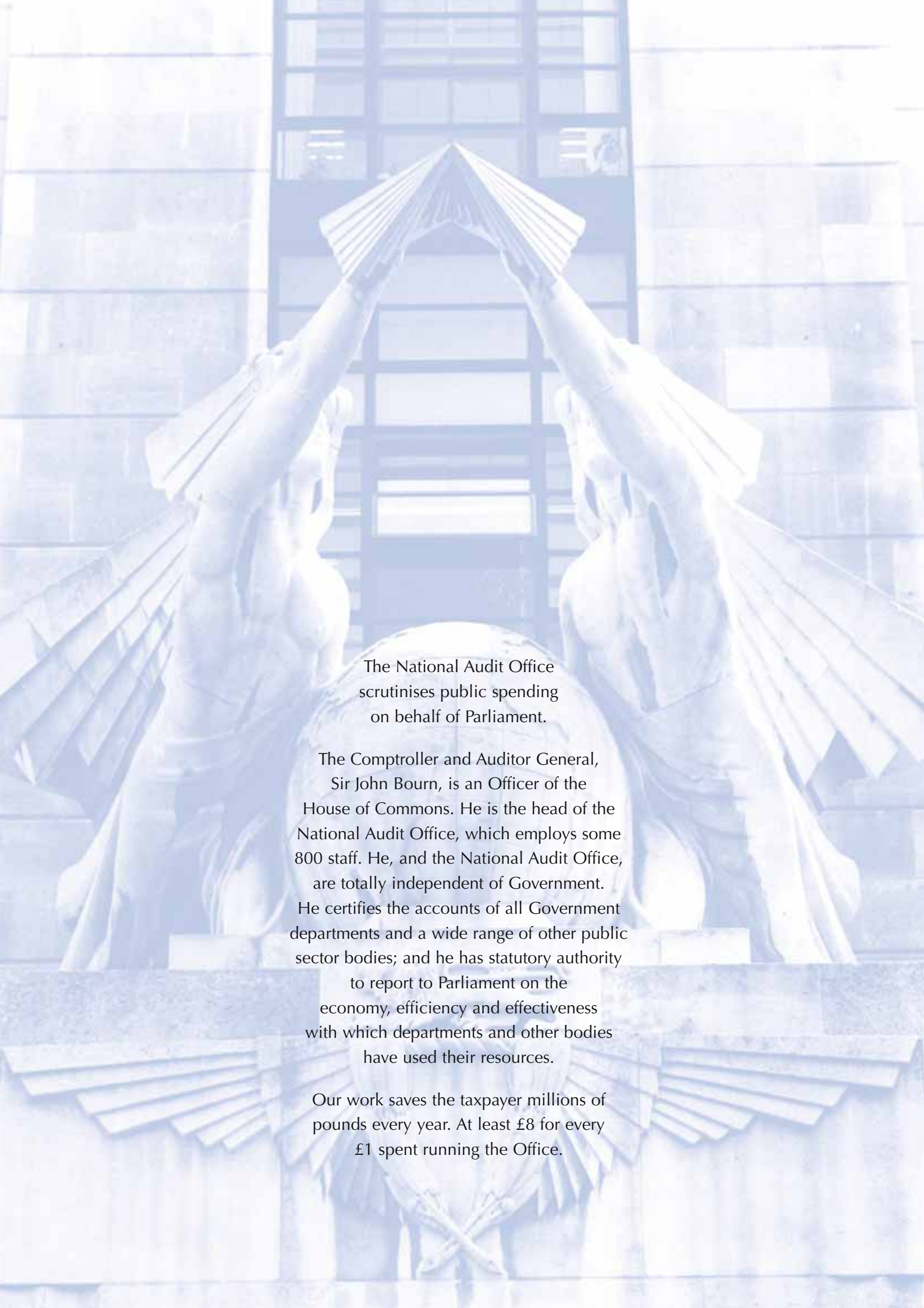


Energywatch and Postwatch: Helping and protecting consumers

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 1076 Session 2003-2004: 15 October 2004





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Energywatch and Postwatch

Helping and protecting consumers



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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn National Audit Office
Comptroller and Auditor General 10 September 2004

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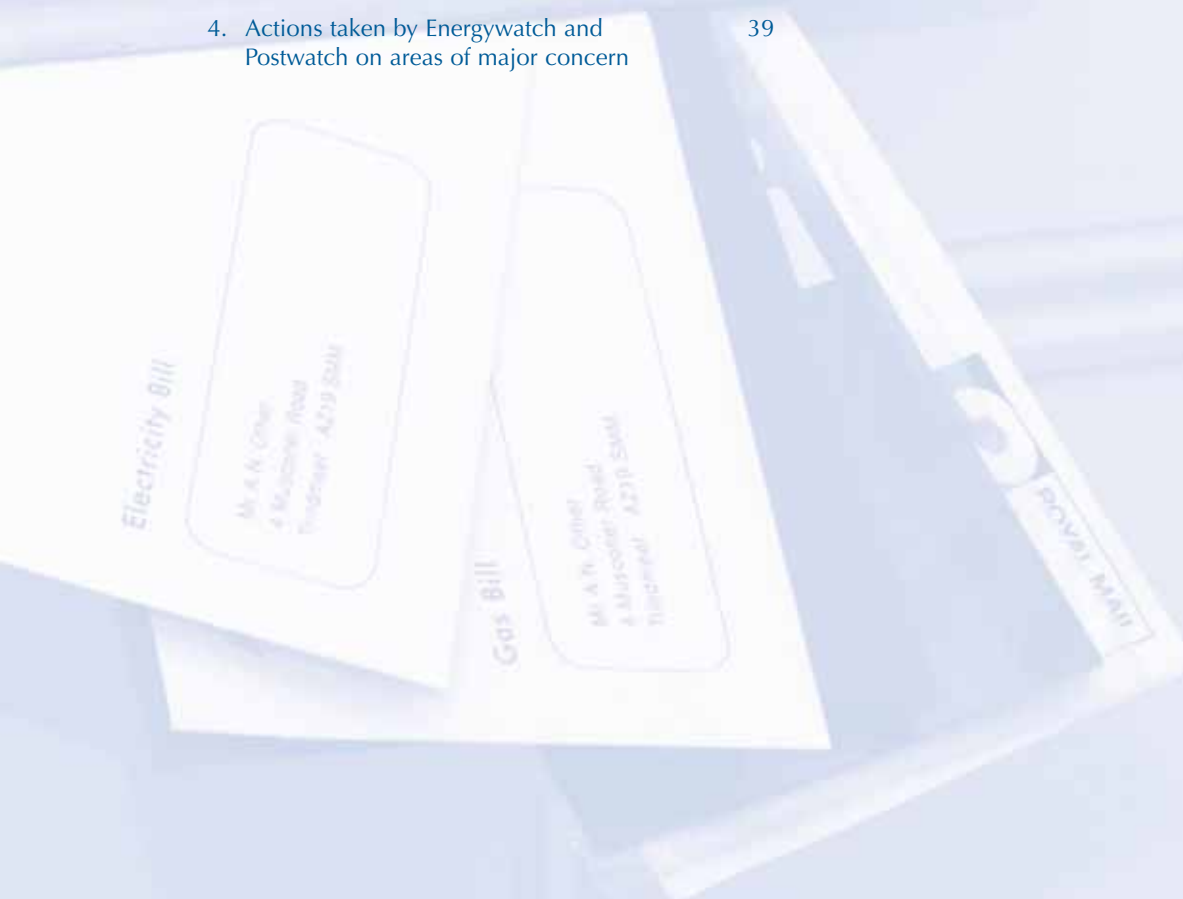
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executive summary

- 1 Energy and post are essential services which play an important role in modern life. Disruption to these services, especially electricity, can have serious implications for domestic customers, particularly vulnerable consumers, and business. Furthermore, some consumers in the energy and postal markets continue to suffer from poor service. And while the best way of protecting consumers is often through competitive markets, vulnerable consumers may not always be able to take advantage of the benefits of competitive markets in the case of energy; and there is little meaningful competition for most consumers in the case of post.
- 2 Consumer representation is now at the heart of utilities regulation. In 2000 the Government established independent statutory bodies to represent the consumer interest in the energy and postal markets. Energywatch replaced the Gas Consumers Council and the Electricity Consumers' Committees; and Postwatch replaced the Post Office Users' National Council. Energywatch and Postwatch were established to ensure that consumers have an effective and influential voice within the regulatory system. Their specific aims are to promote and protect the interests of consumers in their respective markets and their three key statutory tasks are to:
 - investigate complaints referred by consumers who are not satisfied with a company's response;
 - represent the views of consumers; and
 - provide advice and information to consumers.
- 3 Energywatch received 87,600 complaints in 2003-04 and Postwatch received 27,500. These showed that consumers in the energy market have faced particular problems with the accuracy and timeliness of bills and the process of switching supplier; and, in the postal sector, with lost mail and mis-delivery.
- 4 Energywatch and Postwatch operate within the context of different regulatory and market environments. The electricity and gas markets have been open to full domestic competition since 1999. The postal market, however, continues to be dominated by Royal Mail, although there is competition in some segments such as heavier items of post. The needs of consumers also differ. In the postal market, businesses send 86 per cent of mail volumes and domestic consumers, who are the main recipients, are concerned primarily about the timeliness and reliability of delivery. Cost is a more important issue for domestic consumers in the gas and electricity markets as average household spend is about £520, compared to £26 a year on post.
- 5 In 2003-04, Energywatch spent £13.8 million and Postwatch spent £10.3 million. The Department of Trade and Industry sets their annual budgets, provides funding and recovers each body's costs from licence fees paid by electricity, gas and postal companies. Both Energywatch and Postwatch are non-departmental public bodies and have their own regional structures. **Figure 1** sets out some key facts on the organisations.

1 Energywatch and Postwatch: Key Facts

	Energywatch	Postwatch
Formal title	Gas & Electricity Consumer Council	Consumer Council for Postal Services
Date established	7 November 2000 by the Utilities Act 2000	1 January 2001 by the Postal Services Act 2000
Mission statements prepared by the bodies	"To be an independent consumer champion, dynamic in developing safe, confident and assertive consumers and committed to improving the services provided to current and future gas and electricity customers"	"To protect, promote and develop the interests of postal users in the United Kingdom"
Management structure	Governed by a National Council which consists of a non-executive Chairman and nine members. Headquarters and 7 regional offices: England (5), plus Wales and Scotland	Governed by a National Council. Each region has a Committee and their Chairs are members of the Council Headquarters and 9 regional offices: England (6), plus Scotland, Wales and Northern Ireland
Complaints received in 2003-04	87,600 complaints received (109,600 in 2002-03)	27,500 complaints received (15,800 in 2002-03)
Market	Worth £14 billion per annum	Worth £10 billion per annum (over 20 billion letters and parcels sent)

- 6 This report focuses on Energywatch and Postwatch as each had been in existence for three years and, having established their organisations, are seeking to enhance their approach. The results of our examination will have a wider application for other consumer bodies, such as WaterVoice¹ and the Rail Passengers Council.
- 7 We examined whether Energywatch and Postwatch have achieved benefits for consumers and are operating efficiently. In particular, we considered how the bodies have determined their priorities (Part 1); what they have achieved (Part 2); and the costs incurred (Part 3). Our methodology is summarised in Appendix 1 and included commissioning PricewaterhouseCoopers (PwC) to assess the efficiency and effectiveness of Energywatch and Postwatch. PwC's work included comparisons against similar bodies in the United Kingdom and overseas. We supplemented PwC's work with our own analysis and consultation with a range of stakeholders.
- 8 The Department of Trade and Industry and HM Treasury have undertaken a joint study into consumer representation in regulated markets in the United Kingdom. In doing so, they have assessed the efficiency and effectiveness of consumer representation in the utility sectors, and made recommendations to enhance further the effectiveness of consumer bodies in the medium term. They published their findings in July 2004. They are also considering the longer-term government policy for consumer representation in regulated industries and published a consultation document to seek views on their proposals.

¹ WaterVoice is currently a semi-autonomous part of the Office of Water Services (Ofwat). WaterVoice will become independent in October 2005 when the Consumer Council for Water is set up.

Main findings

The priorities of Energywatch and Postwatch

9 In their first three years, the priorities of Energywatch and Postwatch have been to set up their organisations and handle complaints. Having established themselves, their statutory duty to investigate every complaint received (paragraph 2) has been their biggest task (Figure 2). Energywatch and Postwatch then have to prioritise their remaining resources to meet their other statutory duties and have focused on those areas they believe will bring the greatest benefits for consumers. Postwatch has focussed on helping to shape the regulatory regime, address operational problems within Royal Mail and to protect the interests of consumers during the reduction in the number of urban post offices. The remaining priorities of Energywatch, meanwhile, have been heavily influenced by an analysis of the complaints and enquiries that have been referred to it, notably problems associated with billing, selling practices and the process of switching supplier.

2 A summary of running costs by activity in 2003-04

	Energywatch		Postwatch	
	£ million	%	£ million	%
Direct activities¹				
Complaint handling	5.4	42	2.0	20
Customer awareness	1.9	15	0.9	9
Policy	0.6	5	0.7	7
Research	0.3	2	0.3	4
Council and Regional Committees	0.1	1	1.6	15
Network ²	n/a	n/a	1.6	15
Indirect expenditure³	4.5	35	3.2	30
Total	12.8	100	10.3	100

NOTE

- 1 Direct expenditure only. New costing systems introduced from April 2004 allow indirect expenditure, such as accommodation costs, to be assigned to direct activities.
- 2 Network costs relate to Postwatch's work on the Urban Reinvention Programme, a scheme designed to achieve a better solution to the provision of urban post offices.
- 3 The largest single item is accommodation costs, which would normally be assigned to direct activities (see Note 1). Indirect expenditure also includes office expenses (e.g. travel, telephones, postage), information technology and depreciation.

Source: Energywatch and Postwatch

10 Energywatch and Postwatch have a detailed knowledge of their respective markets but do not have a comprehensive understanding of current consumer needs. Energywatch and Postwatch collect evidence to inform their priority setting from a number of sources, including an analysis of complaints; input from their regional offices and committees; monitoring developments in their respective industries; and research. However, they have not undertaken a comprehensive analysis of consumer needs or the factors which influence consumer behaviour within their markets. The profile of complaints gives an indication of consumer concerns but, as not all consumers have the ability or motivation to complain, this analysis may not accurately reflect the actual problems in the market.

- 11 Until Energywatch and Postwatch develop a better understanding of consumer needs, there remains a risk of failing to focus on important areas for consumers.** In particular, the approaches adopted by Energywatch and Postwatch mean that the needs of specific sub-groups, such as the elderly or low income groups, may not be adequately identified. Energywatch and Postwatch also need to ensure that they give greater attention to raising consumer awareness of potential opportunities, such as choosing the right postal product and energy supplier.

The achievements of Energywatch and Postwatch

- 12 Energywatch and Postwatch have brought benefits to consumers in their respective markets.** They have undertaken a wide range of activities nationally and locally, including a number of specific national campaigns to represent and protect consumers, and talks with local managers of companies on quality of service issues. In terms of their performance against each of their statutory duties (paragraph 2), our findings are:

- **Investigating customer complaints:** in taking up complaints on behalf of consumers Energywatch and Postwatch seek to achieve the resolution of the problem raised, compensation or an apology. They have developed efficient systems for investigating complaints and can point to examples where their complaints handling has added value for consumers. In 2003-04 Energywatch and Postwatch improved the timeliness of their responses, although they did not meet their performance targets, and achieved high customer satisfaction ratings. But neither body has evaluated the outcomes from their complaints handling work, such as the level of compensation achieved, in a systematic manner.
- **Representing the views of consumers:** Energywatch and Postwatch have to rely largely on influence to affect the decisions of service providers, their sector regulators (Ofgem and Postcomm) and government. Each has developed their organisations to become a significant presence in and influence on their industries. They can point to campaigns to bring pressure on suppliers to improve their performance, such as mis-selling in the energy markets and evaluating the programme of post office closures, which have had a positive impact for consumers. On occasions, the remit of Energywatch and Postwatch has led them to adopt a different stance from their sector regulators. But this has not prevented them from seeking to develop strong working relationships. For example, Energywatch has agreed a joint work plan with Ofgem.
- **Providing advice and information to consumers:** Energywatch and Postwatch have used a range of methods for disseminating information to the public, including the use of websites, leaflets and dedicated telephone lines to answer the enquiries of individual consumers. Energywatch and Postwatch have also worked in partnerships with other consumer bodies, such as Citizens Advice², to distribute information to vulnerable consumers such as the elderly, sick and those on low incomes.

² Prior to January 2003, Citizens Advice was known as the National Association of Citizens Advice Bureaux.

13 Energywatch and Postwatch have not developed a coherent approach to monitoring and demonstrating their impact on behalf of consumers.

Energywatch and Postwatch have not attempted to evaluate the full range of their activities, including their influencing and information activities (paragraph 12, second and third bullets). Their existing performance measures focus largely on the activities they undertake rather than the impact of their work; for example, whether they are achieving their desired outcomes in respective markets. There has also been an inconsistent approach to evaluating the success of individual campaigns and activities. As a result, it is difficult to establish the extent to which Energywatch and Postwatch are achieving an impact for consumers, and fulfilling their duties. Both have recognised the need to enhance their approach to performance measurement to ensure that their achievements are evaluated and reported in a more systematic manner.

The costs incurred by Energywatch and Postwatch

14 The main running costs are staff and accommodation. In their first three years, Energywatch spent £57 million, including £12 million on closing down its predecessor bodies. Postwatch has spent £27 million. As shown in Figure 2 on page 3, approximately 70 per cent of their expenditure in 2003-04 was on direct activities. Both bodies have their headquarters in central London. Energywatch also has one of its seven regional offices and Postwatch has two of its nine regional offices co-located with its headquarters. The London accommodation accounts for nearly two-thirds of Energywatch's annual rental costs and three quarters of Postwatch's annual rental costs.

15 There are benefits from maintaining regional representation, but Energywatch and Postwatch should evaluate whether these benefits could be achieved at a lower cost. Regional representation enables Energywatch and Postwatch to understand better and address local, regional and national issues. But there are also associated costs of maintaining the regional network. Energywatch and Postwatch need to carry out a cost-benefit analysis of their network of regional offices to establish whether the benefits from regional representation could be achieved at a lower cost. The three options worth considering further are:

- consolidating the existing regional offices to achieve economies of scale;
- centralising some functions currently undertaken in the regions, such as complaints handling, preferably in a location where accommodation costs are much lower than central London; and
- outsourcing complaints handling and support functions, potentially through purchasing partnerships with other consumer bodies. This would allow Energywatch and Postwatch to focus on their core activities of advocacy, policy development, campaigning and influencing.

Energywatch and Postwatch will need to ensure decisions on their most appropriate organisational structure are taken within the context of the Government's proposals for the delivery of consumer representation in the future (paragraph 8). For example, the Department of Trade and Industry's consultation document includes proposals to reduce the number of consumer bodies and to develop a new service, Consumer Direct, to provide a national first point of contact for all consumer advice.

- 16 Energywatch and Postwatch could be more proactive in seeking to reduce costs.** Complaints handling is their biggest single task (Figure 2 on page 3). Reducing the number of complaints, while continuing to represent consumers effectively, would reduce costs. This might be achieved by dealing more actively with the underlying causes of complaints; getting service providers to improve their own complaints handling systems; and by reducing the number of complaints to Energywatch and Postwatch that should have been directed in the first instance to the service provider. There is also scope to reduce costs through greater sharing in the provision of administrative and support functions, for example specialist advice.
- 17 The budgets for Energywatch and Postwatch should reflect the extent of consumer problems and the overall regulatory budget for their respective markets.** The budgets of Energywatch and Postwatch are set independently of each other by the Department of Trade and Industry. But the Department does not evaluate the overall level of consumer detriment³ in these markets when setting the budgets and does not carry out an assessment of the aggregate budgets of the sector regulators and other publicly funded organisations providing consumer services in the electricity, gas and postal markets. As a result, the Department of Trade and Industry's approach to budget setting does not systematically evaluate the appropriate level of consumer representation in the energy and postal markets, and whether this is proportionate to the level of consumer detriment in these markets.

³ The Office of Fair Trading defines consumer detriment as the negative effect on consumers of defective goods, sub-standard service, poor information and markets that do not work as well as they could.

Recommendations

- 18** Over their first three years, Energywatch and Postwatch have successfully established their organisations, developed efficient systems to handle customer complaints and sought to address major problems in their sectors. In doing so, there are examples where Energywatch and Postwatch have achieved benefits for consumers. There is scope, however, to increase those benefits and to reduce their operational costs. Our recommendations are intended to assist the bodies to achieve this and to demonstrate more clearly their effectiveness.
- 19** Both Energywatch and Postwatch have responded positively to our examination and findings, and are already taking action to implement the recommendations. In particular, Energywatch is preparing a larger research programme to develop a better understanding of consumer needs in the energy market and, with the support of Postwatch, has set up a Consumer Action Network to promote the sharing of good practice between consumer bodies and to explore the scope for joint working. Postwatch is negotiating a new funding mechanism with the Royal Mail and is centralising its complaint handling function to Belfast.



In the short term

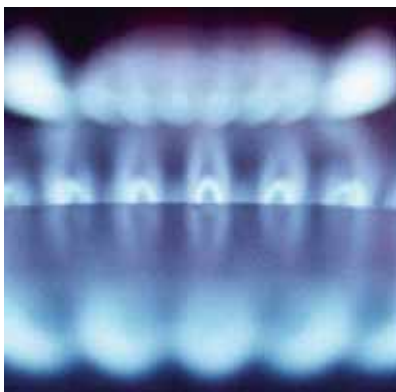
- a Energywatch and Postwatch should seek to develop a better understanding of the nature and extent of problems faced by consumers in their markets.** Energywatch and Postwatch have conducted important research, but they have not yet exploited this research sufficiently to provide a comprehensive view of the needs and problems of consumers. This comprehensive view, once completed, would need to be updated to reflect the changing natures of energy and postal markets. (Paragraph 1.22)
- b Postwatch should agree an action plan with their sector regulator, Postcomm, equivalent to that agreed between Energywatch and Ofgem.** This should identify areas of joint working and set out respective roles. (Paragraph 2.17)
- c Energywatch and Postwatch should undertake a more systematic evaluation of major campaigns and initiatives.** This would provide better feedback on their impact and would enable the bodies to identify lessons. (Paragraph 2.18)



In the medium term

- d Energywatch and Postwatch should ensure their strategy is evidence-based and draws on a wide range of sources including research, complaints, and stakeholder consultation.** The strategies should explicitly define the types of consumer issues where their intervention is unnecessary and the areas where they can add most value. (Paragraph 1.23)
- e Energywatch and Postwatch should develop measures to evaluate the impact of their complaints handling.** Such measures should evaluate the proportion of complaints that have led to the resolution of a specific problem, compensation for consumers or an apology. They should also calculate the value of compensation achieved for consumers. (Paragraph 2.13)





- f Energywatch and Postwatch should adopt a more systematic approach to evaluating and reporting their performance.** In particular, they should aim to introduce a range of quantifiable measures of their impact across their full range of activities. They should also estimate the amount of consumer detriment in their markets to prepare a baseline against which they measure their impact in future, especially for those consumers who need the most help. (Paragraph 2.30)
- g Energywatch and Postwatch should introduce measures of their operational efficiency.** Establishing their offices and ensuring that they can handle an increasing volume of consumer complaints satisfactorily has been a major achievement. Now that their organisational structures and processes are firmly established, they should make a clear commitment to reducing costs through efficiency improvements; for example by setting an objective for maintaining office costs below an agreed proportion of total costs. (Paragraph 3.2 to 3.7)
- h Energywatch and Postwatch should undertake an evaluation of their headquarter and regional structures and consider whether existing benefits could be achieved in a more cost-efficient manner.** There are clear benefits from a regional representation but, on the other hand, there is also the potential for greater consistency and economies of scale from centralising important functions, such as complaint handling. Energywatch and Postwatch should undertake a joint exercise to consider what actions they can take separately and together to evaluate whether the benefits can be achieved at a lower cost. Such an evaluation should also consider the Government's evolving strategy for consumer representation and, in this light, explore the scope for closer co-ordination with other consumer bodies. Energywatch and Postwatch should also consider the opportunities to reduce accommodation costs, especially in relation to their London properties. (Paragraph 3.15)
- i Energywatch and Postwatch should explore the scope for closer joint working, with each other and other consumer bodies.** We welcome initiatives, such as the Consumer Action Network, which promote the sharing of good practice. But the consumer bodies could also adopt a joint approach to delivering support functions. At present, each body has its own administrative function, which leads to a duplication of resources. Such a move would require Energywatch and Postwatch to establish mechanisms to charge others and receive monies. (Paragraph 3.21)
- j When setting the budgets of Energywatch and Postwatch, the Department of Trade and Industry should take into account the overall expenditure on the regulatory framework for postal and energy markets.** At present, the budgets for consumer bodies and sector regulators are set separately and independently. The Department should consider the overall regulatory expenditure and level of consumer detriment in these markets. The Department should also develop longer-term strategies that identify when it would be appropriate to scale back the role of consumer watchdogs. (Paragraphs 3.22 to 3.26)

Part 1

The priorities of Energywatch and Postwatch

1.1 This Part of the Report explains why Energywatch and Postwatch were established, considers the problems that some consumers have experienced in the energy and postal markets, and analyses how Energywatch and Postwatch have set their priorities to help and protect consumers.

Energywatch and Postwatch were established to handle unresolved complaints, represent consumers, and to provide advice and information

- 1.2 The Gas and Electricity Consumer Council, known publicly as Energywatch, was established on 7 November 2000 and replaced the Gas Consumers Council and the 14 Electricity Consumers' Committees. The Consumer Council for Postal Services, known as Postwatch, was established on 1 January 2001 and replaced the Post Office Users' National Council (POUNC) and its associated bodies (Figure 3).
- 1.3 The Energywatch Council consists of a non-executive part-time Chairman⁴ and nine members, and is responsible for the proper conduct of business, strategic planning and monitoring performance. The Council is supported by some 300 staff headed by a Chief Executive who is also the Accounting Officer⁵ for Energywatch. Similar arrangements exist in Postwatch, which has a Council consisting of a Chairman⁶ and 13 members. Postwatch has 107 staff, again headed by a Chief Executive⁷.
- 1.4 Energywatch has two regional committees, one each for Scotland and Wales, as required by statute. These committees are responsible for bringing the attention of Energywatch to the interests and concerns of

consumers, and their work supports Energywatch's offices for these areas. Postwatch has nine committees covering the United Kingdom, six for England and one each for Scotland, Wales and Northern Ireland. Similarly, the Postwatch Committees work closely with respective regional offices. For both Energywatch and Postwatch, each of the committees has a Chairman who is a member of the National Council. Energywatch has some 20 committee members and Postwatch has 90.

Energywatch and Postwatch represent consumer interests in the energy and postal markets

- 1.5 Postal services play an important role in everyday life and the provision of a universal postal service is embedded in legislation⁸. Disruption to these services can have important implications for domestic consumers and business - for example, if job interviews or medical appointments are missed. Post offices also play an important social role, and are currently being rationalised in urban areas with the aim of improving the overall viability of the post office network. Electricity and gas are also essential services. Electricity is a prerequisite to modern life and gas is the main source of heating in the United Kingdom. Any disruption to supply, particularly in winter months, can be potentially life threatening.
- 1.6 In 1998 a Government Green Paper⁹ set out the objective of securing a fair deal for all consumers, especially disadvantaged groups, in using the essential services that utilities provide. This stressed the need for independent statutory consumer bodies, with clearly defined legal rights to information and consultation. The subsequent White Paper sets out the Government's intention to establish Energywatch. Similarly, in 1999, as part of its review of the Post Office¹⁰, the Government

⁴ Prior to the appointment of Professor Ed Gallagher from 1 April 2004, the post of Chairman had been an executive position. Ms Ann Robinson served as Chairman until 31 December 2003 and Mr Andrew Horsler then served as the temporary Chairman.

⁵ Currently Mr Allan Asher.

⁶ Currently Mr Peter Carr.

⁷ The current Chief Executive, and Accounting Officer, is Mr Gregor McGregor.

⁸ The Postal Services Act 2000.

⁹ Green Paper (CM 3898, March 1998): *A Fair Deal for Consumers - Modernising the Framework for Utility Regulation*.

¹⁰ White Paper (Cm 4340 of July 1999): *Post Office Reform - A world class service for the 21st century*.

3 Main features of the consumer representation arrangements replaced by Energywatch and Postwatch

	Electricity Consumers' Committees	Gas Consumers Council	Post Office User's National Council
Statute and role	Independent bodies established by the Electricity Act 1989 to advise the Director General of Electricity Supply on matters affecting electricity consumers.	Independent body established by the Gas Act 1986 to investigate consumer complaints and to provide advice.	Independent body established by the Post Office Act 1969. National voice for Post Office users. Had right to be consulted on major proposals of the Post Office.
Structure	14 Committees, one for each of the areas served by the original electricity supply companies of Great Britain. Each Committee had a Chairman and 11-16 members. The 14 Chairmen were members of the National Consumers' Consultative Committee, chaired by the Director General.	Council comprised Chairman and 7 other members. Chairman from 1 January 2000 became the first Chairman of Energywatch.	Separate Councils for Wales, Scotland and Northern Ireland. The Chairman of these formed part of the National Council but not formally accountable to it. There was a network of some 180 Post Office Advisory Committees. These represented the views of users at local level. Not statutory bodies but provided for in statute.
Complaints	Did not investigate complaints, which was done by Office of Electricity Regulation, but identified the wider lessons and pursued these with the industry.	Handled 270,000 complaints and enquiries in 1999.	Handled 6,700 complaints in the nine months ended 31 December 2000.
Expenditure	Not separately identified within the Office of Electricity Regulation. Administrative support provided by the Office of Electricity Regulation's network of regional offices.	£3.2 million in 1998-99, of which £1.9 million was staff salaries. Own headquarters in central London and 9 regional offices around Great Britain.	£0.9 million in the nine months ended 31 December 2000.

announced its intention to strengthen consumer representation in the postal market. The aim was to ensure that consumers had an effective and powerful voice within the regulatory system, and Energywatch and Postwatch were charged with representing the consumer interest in their sectors.

1.7 Legislation¹¹ has given Energywatch and Postwatch three main duties.

- to investigate complaints referred by consumers who are not satisfied with a company's initial response;
- to represent the views of consumers, and
- to provide advice and information to consumers.

1.8 Energywatch and Postwatch interpret their statutory duties into a set of objectives and, from these objectives, a set of activities. Both bodies have defined their strategic aim in terms of protecting and promoting the interests of consumers in their respective markets. Energywatch has supplemented this with a mission

statement "to be an independent consumer champion, dynamic in developing confident and assertive consumers and committed to improving the services provided to all gas and electricity consumers". Postwatch has stated its aim is to "protect, promote and develop the interests of all postal users in the United Kingdom".

1.9 The activities of Energywatch and Postwatch are intended to complement the work of their respective sector regulators, Ofgem (The Office of Gas and Electricity Markets) and Postcomm (The Postal Services Commission)¹². Although Ofgem has a principal duty to protect the interests of consumers, its other statutory duties give it a much wider remit than Energywatch. For example, Ofgem also has a duty to help secure a diverse and viable long-term energy supply. Postcomm's primary objective is to safeguard the provision of the universal postal service and then to further the interests of users, wherever appropriate by promoting competition into the postal market.

¹¹ The Utilities Act 2000 and Postal Services Act 2000.

¹² Ofgem was also established by the Utilities Act 2000 and Postcomm by the Postal Services Act 2000.

1.10 The regulators have enforcement powers to help them achieve their statutory duties whereas Energywatch and Postwatch have no such powers, and have to rely on influence to achieve their aims. For example, both Ofgem and Postcomm can impose financial penalties. Since November 2002 Ofgem has imposed fines totalling £4.3 million on six companies for unsatisfactory practices relating to doorstep selling, the transfer of customers to alternative suppliers and connections to the gas network. Similarly, in December 2003, Postcomm imposed a penalty of £7.5 million on Royal Mail for poor service, an aspect of particular concern to Postwatch.

Energywatch and Postwatch operate in quite different regulatory and market environments

1.11 The regulatory environment for post compared to electricity and gas was significantly different in 2000, when Energywatch and Postwatch were established. The regulatory regime in the postal market was in its infancy and important issues such as the licensing of the Royal Mail Group¹³ and the introduction of competition were still in development. Although competition in postal services is gradually increasing, Royal Mail still dominates most segments. Competition is more mature in the electricity and gas markets. Consolidation has gradually occurred in the distribution and supply of electricity, and there are now six main suppliers to domestic consumers.

1.12 There are major differences in the characteristics of consumers in the postal market and the electricity and gas markets. In the postal market there are both sending customers, who pay, and receiving customers. Business sends 86 per cent of mail volumes and domestic customers are the main receivers of mail. Average household spend on post is £26 a year. This compares with some £520 for electricity and gas¹⁴. Consumers in the postal market are able to choose between a range of products but have very limited choice of supplier. There is a far greater choice of electricity and gas suppliers, who compete not only on price but also service by offering, for example, a range of tariff types.

Some consumers in the markets for gas, electricity and post continue to suffer from poor service

1.13 There is a high level of satisfaction among domestic consumers with their supplier of gas and electricity¹⁵. Nevertheless, a wide range of problems exist for some consumers in these markets. Complaints to Energywatch have shown that customers have not always received accurate and timely bills; and that unsatisfactory selling practices have seen customers tricked, pressurised and misled. In addition, the process of switching to another supplier has not always gone smoothly for customers due, for example, to problems with meter readings; and some suppliers have unfairly stopped their customers from switching.

1.14 Although most domestic consumers feel that the Royal Mail's 1st Class service provides good value for money¹⁶, lost and mis-delivered mail remains a persistent problem. Royal Mail estimates that some 14.5 million letters are lost each year, of which nearly 60 per cent are delivered to the wrong address. More generally, in 2003-04 the Royal Mail failed all 15 service targets in its licence. This included the minimum target for its flag-ship 1st class service, where 90.1 per cent arrived the next day compared to the target of 92.5 per cent. There were also variations between postcode areas, with the best (HD: Huddersfield) achieving 94.8 per cent and worst (SW: London SW¹⁷) only 82.1 per cent. Overall, some two million 1st class letters per day did not arrive the next day.

Energywatch and Postwatch have discretion to determine their priorities

1.15 In their first three years, the priorities of Energywatch and Postwatch have been to set up their organisations and to develop new systems to handle complaints. This included, especially for Energywatch, the task of closing down their predecessor bodies. Energywatch inherited 23 existing premises and replaced these with eight offices, and the existing complaint handling databases were replaced with a new single networked database. For Energywatch there were also significant staffing changes, notably redundancies and the recruitment and training of many consumer advisers. The costs involved are set out in Part 3.

¹³ The Royal Mail Group was previously known as Consignia plc and prior to that the Post Office.

¹⁴ Several factors determine the levels of gas and electricity bills besides consumption - for example, payment method and switching to the cheapest supplier.

¹⁵ Research by the Department of Trade and Industry in 2000.

¹⁶ NAO public survey in 2001.

¹⁷ The national figures exclude three postcodes (KW Kirkwall, HS Hebrides and ZE Lerwick) whose geographical remoteness makes next day delivery difficult. Northampton (NN postcode) achieved only 74.3 per cent for 1st Class mail due to major disruption caused by an arson attack on the mail centre, but its previous good performance has since been regained.

1.16 Energywatch and Postwatch also have a statutory duty to investigate unresolved complaints. Postwatch has experienced a large increase in the number of complaints referred by consumers (Figure 4), whilst the number referred to Energywatch rose sharply in 2002-03 but has since fallen back. Handling complaints represents their largest single task and represented 42 per cent of Energywatch's and 20 per cent of Postwatch's running costs in 2003-04. Furthermore, complaints to Energywatch and Postwatch represent a small proportion of the complaints made to the companies in the energy and postal markets. For example, Royal Mail received 1.6 million complaints in 2002-03, of which 0.9 million (55 per cent) related to lost mail.

1.17 After establishing their organisations and meeting their statutory requirement to investigate complaints, Energywatch and Postwatch have discretion to determine how to use their remaining resources to achieve their other statutory objectives. They set out their priorities in published annual forward work programmes, which are finalised following consultation with their industries, including major business users¹⁸ and other consumer bodies. Both Energywatch and Postwatch also have a rolling three-year corporate strategy.

4 The number of complaints received by Energywatch and Postwatch

Year	Energywatch	Postwatch
2001-02	87,300	6,300
2002-03	109,600	15,800
2003-04	87,600	27,500

Source: Energywatch and Postwatch

1.18 Energywatch's priorities have been heavily influenced by an analysis of the enquiries and complaints that have been referred to them (Figure 5). These showed that consumers have faced particular problems with billing, unsatisfactory selling practices and the process of switching supplier in the energy market. This led Energywatch to undertake major campaigns to tackle unsatisfactory selling practices (*Stop Now!*) and to improve billing standards (*Better Billing*). Energywatch's priorities have also been influenced by issues such as Priority Service Registers¹⁹, the energy policy and the extension of the gas network.

5 Main types of complaints received by Energywatch and Postwatch in 2002-03

Complaint	Percentage of complaints	Main activity
Energywatch		
Billing	43%	On-going campaign to raise billing standards, supported by Better Billing research in 2003.
Changing supplier	25%	Press releases. Maintaining price comparison factsheets. Seeking to streamline transfer arrangements.
Aggressive sales tactics	8%	Stop Now campaign in 2002 supported by NOP survey of people who had been in contact with an energy salesperson. Helped develop an industry-wide Code of Practice.
Postwatch		
Lost mail	25%	Campaign in 2002. Evolved into a campaign on mis-delivery starting in 2004. Major research planned on lost mail in 2004-5.
Redirection service failure	8%	Study in 2003-04. Results currently being evaluated.
Misdelivery	8%	Current campaign. Commissioned Misdeltivered Mail Research from MORI. Summary published April 2004.
Inadequate response	6%	Mystery shopping by MORI of complaints handling at Consignia (Royal Mail) May 2002.
Damaged mail	5%	Research by MORI on Christmas Postal services in 2001. Lobbied Royal Mail Group to introduce a new information system in post offices that prompts staff to ask customers prescribed questions to minimise damaged mail.

Source: PwC benchmarking review of Energywatch and Postwatch (March 2004)

¹⁸ Energywatch has established an Industrial and Commercial Users Forum, while Postwatch has established a Trade Association Forum made up of the largest business users of postal services.

¹⁹ Each electricity and gas supplier is required by its licence to provide specified additional, free, services to the elderly, disabled and chronically sick. Those customers who register with their suppliers are placed on the company's Priority Service Register, which entitles them to such services as free gas safety checks and priority during the restoration of electricity supplies.

1.19 In setting priorities, Postwatch has been heavily influenced by the regulatory regime in the postal sector and by the major issues facing the Royal Mail Group. In particular:

- Postwatch sought to ensure that consumers' needs were represented in a changing regulatory regime in the postal sector. In particular, Postcomm was making important decisions to a tight timetable about the Royal Mail's licence, price control and service delivery targets, and also how competition should be introduced into the postal market.
- Postwatch sought constructive engagement with Royal Mail and trade unions with regard to revising postal deliveries to remove inefficient practices and provide improved working conditions for staff. This was particularly important as the Royal Mail Group was suffering from large operational financial losses. The work, known as the Single Daily Delivery, has seen the removal of second deliveries as these accounted for 20 per cent of costs but only 4 per cent of mail delivered.
- Significant changes were announced to the urban post office network (Figure 16 on page 21) and the payment of state benefits through post offices. Vulnerable consumers were particularly affected. Postwatch saw an urgent need to protect and inform users of post offices.

1.20 Energywatch and Postwatch have sought to use their discretionary resources to tackle areas they believe will bring benefits for consumers. Each has been focused on the major issues affecting their sectors (Figure 5) and the priorities have changed to reflect the emerging issues within their respective industries. More information on their activities is provided in Appendix 4 and the success of their approach is assessed in Part 2.

Energywatch and Postwatch have a detailed knowledge of their markets, but need to improve their understanding of consumer needs

1.21 The Department of Trade and Industry's report highlighted that, to effect real change for consumers, Energywatch and Postwatch should concentrate their resources where they have the greatest impact and need clear prioritisation to focus on issues related directly to their core strategic objectives. Energywatch and Postwatch collect evidence from a number of sources to inform the setting of their priorities. Energywatch has relied largely on its complaint data to develop its understanding of consumer needs. Postwatch has supplemented its analysis of complaints with evidence from its larger research programme and its more extensive network of regional committees. Nevertheless, Energywatch conducted research into consumer attitudes in 2001²⁰. This research found three key concerns - the selling process, switching supplier and billing - which helped Energywatch set its priorities, define its complaint categories and structure its information programme.

1.22 There remains a risk that Energywatch and Postwatch might not address issues that are important to consumers as neither body has brought together their existing knowledge to complete a formal overview of consumer needs in their respective markets. Specifically, Energywatch and Postwatch have not undertaken an analysis of the nature and extent of the problems met by consumers in these markets. In addition, neither has undertaken an up to date analysis of the needs of consumers and the factors which influence their behaviour. The importance of collecting such research was highlighted by the Office of Communications in April 2004 during its strategic review of telecommunications, and is equally applicable for consumer bodies (Figure 6).

6 Comment by the Office of Communications (Ofcom)

It is always necessary for regulators to ask the question: "What do consumers really want?" Regulators run the risk of adopting approaches which are too theoretical and insufficiently grounded in practicality. We will be undertaking extensive research into the attitudes, needs and expectations of consumers in each of the residential, small business and large business sectors in order to inform our decisions.

Source: Ofcom's consultation on its Strategic Review of Telecommunications (April 2004)

²⁰ In September 2001, the University of East Anglia conducted research into consumer attitudes to competitive energy markets.

1.23 In seeking to establish a detailed knowledge of consumer needs in their respective markets, it is important that Energywatch and Postwatch collect reliable information from a range of sources. Energywatch's approach of relying largely on an analysis of complaints to identify problem areas could adversely affect the setting of work priorities as the number and profile of complaints may not accurately reflect the overall problems of consumers. In practice, complaints are a function of consumers' motivation to complain, their ability to complain, their expectations on service levels and the levels of service actually received. Postwatch, meanwhile, has placed greater reliance on its network of committees to gather information on what is happening locally. There are risks to this approach since, while it can bring out the scope of experiences and opinions, it is not necessarily a reliable guide to the scale and extent of consumer problems.

1.24 There is also a need for Energywatch and Postwatch to consider whether the needs of specific sub-groups of consumers, such as vulnerable consumers or small businesses, are adequately identified. There is a risk that their current approach to understanding consumer needs has been insufficiently detailed to develop an understanding of differing needs.

Part 2

The achievements of Energywatch and Postwatch

2.1 This Part of the Report reviews what Energywatch and Postwatch have achieved in their first three years of existence. In particular, we focus on their three key statutory tasks: handling complaints; representing consumers; and providing advice and information to consumers (paragraph 1.7). We also examine the arrangements that Energywatch and Postwatch have established to measure their impact.

Energywatch and Postwatch have brought benefits to consumers

They have developed efficient systems to handle complaints

2.2 Energywatch and Postwatch have a statutory duty to investigate complaints referred to them by consumers who consider that their complaint has not been dealt with satisfactorily by their service provider. Energy and postal customers are expected to complain directly to the company concerned in the first instance. In September 2003 Energywatch announced plans to go a step further by taking up issues immediately on behalf of vulnerable consumers²¹. In investigating complaints on behalf of consumers, Energywatch and Postwatch are seeking to achieve, as appropriate:

- the resolution of the problem, for example where Royal Mail refuses to deliver to an address because of concerns about safety ;
- compensation, for example for items lost in the post or damaged;
- an apology where service has been poor; and
- an understanding of wider emerging issues.

2.3 Handling complaints represents Energywatch and Postwatch's single largest activity (Figure 2 on page 3). In 2003-04 Energywatch incurred direct staff costs of £5.4 million, 42 per cent of its running costs, handling 87,600 complaints. Postwatch incurred £2.0 million, 20 per cent of its running costs, handling 27,500 complaints. Energywatch and Postwatch also handle enquiries for advice and information on energy and postal matters. In 2003-04, Energywatch received 120,000 such enquiries and Postwatch received 21,100.

2.4 The main stages in the complaint handling process and an example of the actions required to resolve a complaint are set out in **Figure 7**. Complaints vary in scale and complexity, and many require considerable effort from Energywatch and Postwatch to resolve the issues with service providers. Responding to enquiries can also involve contact with service providers.

2.5 Both Energywatch and Postwatch inherited complaints handling systems from their predecessor bodies and each has consolidated these disparate systems into a single approach. Each has established a central contact centre, through which all public telephone calls are routed. PwC's evaluation showed that, overall, Energywatch and Postwatch had developed efficient systems to handle complaints.

21 As announced in a speech by the Energywatch Chief Executive during a joint National Audit Office/Regulated Industries Network seminar on the role of consumer organisations in the utility sector on 4 September 2003; and confirmed in the Energywatch Work Plan 2004.

7 The main stages in the complaint handling procedures of Energywatch and Postwatch



Source: PwC benchmarking review of Energywatch and Postwatch (March 2004), Energywatch and Postwatch

Energywatch and Postwatch have performance indicators for handling complaints

- 2.6 Energywatch has established key performance indicators for handling complaints (Figure 8). These show that Energywatch has not yet met its targets for customer satisfaction or the timeliness of its responses. Energywatch told us that the missed targets in 2002-03 were due to a 25 per cent annual increase in the number of complaints, which stretched its capacity to seek resolutions from companies in a timely manner. In 2003-04 the number of complaints received fell back to 2001-02 levels (Figure 4 on page 12) which helped Energywatch achieve a marked improvement in their performance.
- 2.7 Postwatch has adopted the key performance indicators used by its predecessor, POUNC, to evaluate its approach to complaints handling (Figure 9). These indicators focus on the timeliness of response. It has yet to meet its targets, although its performance also improved in 2003-04. Postwatch told us that the fourfold increase in the number of complaints has led to

severe backlogs and that the resolution of complaints can be slowed down by lengthy consultations with Royal Mail. More generally, some cases are complex and establishing the facts before reaching a satisfactory solution can be challenging and time consuming. Postwatch has raised its target in 2004-05 to respond to 97 per cent complaints within the target times.

- 2.8 Energywatch and Postwatch have also conducted annual customer satisfaction surveys to establish a measure of the quality of their approach to handling complaints. These surveys showed that 86 per cent of consumers who referred complaints to Energywatch were satisfied with the way in which the case was dealt with; compared to 72 per cent for Postwatch. The level of satisfaction with Energywatch's service was higher than many of the comparator consumer bodies included in PwC's review (Figure 10). The relatively low level of satisfaction with Postwatch's response is due, at least in part, to the large number of complaints relating to mail that has been lost or mis-delivered, for which it is difficult for Postwatch to achieve a satisfactory outcome.

8 Energywatch's performance against its key performance indicators for complaints handling

Key performance indicators	2002-03		2003-04	
	Target	Outturn	Target	Outturn
Customer satisfaction Percentage of consumers who rate the complaint handling process as 'good' or better	85%	83%	90%	86%
Timeliness of response Percentage of consumer cases resolved within 35 working days	75%	37%	75%	70%
Percentage of consumer cases resolved within 66 working days	95%	68%	95%	89%

9 Postwatch's performance against its key performance indicators for complaints handling

Key performance indicators	2002-03		2003-04	
	Target	Outturn	Target	Outturn
Timeliness of response				
<ul style="list-style-type: none"> ■ Acknowledge a complaint within 2 working days of receipt ■ Where appropriate, take up complaint with the relevant postal operator within 5 working days ■ Provide a substantive reply to the complainant within 5 working days of receipt of the response from the postal operator ■ As appropriate, keep the complainant informed of any delays in the progress of their complaint ■ Provide a substantive reply to the complainant within 10 working days, if they do not take up the complaint with the relevant postal operator 	90% of complaints received	78% of complaints received	95% of complaints received	93% of complaints received

10 Comparative data on consumer satisfaction with complaint handling

Organisation (Note 1)	Level of consumer satisfaction (%)
General Consumer Council for Northern Ireland	96%
Energywatch	86%
The Energy and Water Ombudsman for New South Wales, Australia	81%
Financial Ombudsman Service	75%
Rail Passengers Council	73%
Postwatch	72%

NOTE

- 1 Selected by PwC as valid United Kingdom and overseas comparators that handle complaints and measure consumer satisfaction with the way complaints have been handled.

Source: PwC benchmarking review of Energywatch and Postwatch (March 2004)

2.9 The customer satisfaction surveys also evaluate various aspects of the service provided. For Postwatch, satisfaction levels have declined in all areas except politeness (Figure 11). Energywatch has a narrower set of indicators and satisfaction levels have remained broadly constant since 2001-02 (Figure 12).

2.10 Energywatch and Postwatch monitor the quality of their complaints handling. In 2004 Energywatch commissioned an independent body to carry out mystery shopping on its service. This found that Energywatch scored well on areas such as greetings, politeness and staff attitude but achieved lower ratings on the level of knowledge displayed. The report concluded that more could be done to provide consistent, better informed responses to complaints. Energywatch has undertaken to respond to the report findings.

2.11 In September 2003 Postwatch also conducted an internal audit of its complaint handling procedures which concluded that there was scope to improve the quality of their responses. In particular, the report concluded:

- there had been an improvement in quality of correspondence, but more work was required as just over half of Postwatch's letters contained errors; and
- complaint handlers were accepting sub-standard replies from Royal Mail.

Postwatch has responded to the report by identifying a number of action points, including challenging Royal Mail to better address the points raised; disseminating good practice to regional offices; and introducing peer review of letters.

11 Results of Postwatch's customer satisfaction surveys for complaints handling

Customer satisfaction in dealing with complaints / enquiries	Percentage customers satisfied (%)		
	2001-02	2002-03	2003-04
Politeness	90	96	96
Professionalism	90	84	86
Interest	90	75	73
Speed	86	73	75
Fairness	85	77	Not measured
Helpfulness	78	77	Not measured
Thoroughness	78	72	73

Source: PwC benchmarking review of Energywatch and Postwatch (March 2004); Postwatch

12 Results of Energywatch's customer satisfaction surveys for complaints handling

Customer satisfaction in dealing with complaints / enquiries	Percentage customers satisfied (%)		
	2001-02	2002-03	2003-04
Politeness	91	89	90
Professionalism	87	83	85
Speed	82	78	81

Source: PwC benchmarking review of Energywatch and Postwatch (March 2004); Energywatch

2.12 Energywatch and Postwatch have also sought to improve the quality of their complaints handling. Staff in both organisations receive training in complaint resolution and consumer advocacy and, in Energywatch, this is supplemented with detailed written guidance. In handling complaints, Energywatch and Postwatch seek to add value for customers and there are many examples where this has been achieved (Figure 13).

2.13 As demonstrated above Energywatch and Postwatch achieve a range of outcomes for consumers, depending on the nature of the complaint. But neither Energywatch nor Postwatch evaluate the outcome of their complaints handling in any systematic manner. Their targets focus on the timeliness of handling complaints (Figures 8 and 9) rather than the outcome of cases, such as the level of financial compensation obtained and the number of cases which led to an apology or the resolution of a specific problem.

13 Examples of where Energywatch and Postwatch have added value in their complaints handling

Energywatch

Case 1. 80 year old Eileen was worried about the over-estimated bills she was receiving from her supplier. Taking a meter reading herself involved balancing a ladder on cobblestones and climbing it to reach the meter. Her supplier would not visit the property to take a meter reading and did not inform her that, due to her age, she was eligible to join the Priority Service Register and receive free meter readings. Instead she was told a charge would be made for moving the meter. Energywatch advised Eileen to join the Priority Service Register and she now receives free meter readings and other services.

Case 2. A residential gas customer was issued with a £700 bill for one quarter, seven times their usual amount. The supplier refused to investigate and the customer was eventually disconnected. Energywatch got the supplier to admit the bill was nearly £500 too much and the customer was reconnected.

Postwatch

Case 1. A university had thought that it was using Royal Mail's Sectapost service for the past 5 years at a cost of £45,500. However, it transpired that Royal Mail had only been providing a PO box service which costs much less. Royal Mail offered the university a goodwill payment of £9,100 and would not consider any further payments as it only kept its records for two years. Postwatch challenged Royal Mail and argued that university should receive a full refund. As a result, Royal Mail offered a settlement figure of £30,035 which was accepted by the university.

Case 2. A professional football club sent 4,500 letters, by 1st class post, to invite its season ticket holders to a meeting. The club took the mail to a local post office and it was collected the same day by Royal Mail. But there was a delay in delivering the letters and the club had to make announcements on the radio, TV and their own website. The club complained to Royal Mail who explained, correctly, that 1st class post was not guaranteed but then refused to investigate the matter further. Postwatch took-up the case and as a result:

- Royal Mail apologised to the club for not processing the mail;
- sent a representative to the club to explain the full range of mail products; and
- the club obtained a full refund of the postage costs incurred (£1,311).

Energywatch and Postwatch do not systematically measure the outcome of complaints handling

2.14 There is scope for Energywatch and Postwatch to develop a range of outcome-based indicators, including compensation achieved, to evaluate better the outcome of their work. Measuring the compensation achieved would not, on its own, provide a reliable indicator of Energywatch and Postwatch's performance in handling complaints. The consumer bodies have no power to award compensation and, in some cases, the scope for financial reimbursement will be limited. However, we noted that WaterVoice does calculate the financial compensation achieved for consumers and in 2003-04 obtained some £0.8 million in compensation and rebates, which brought the total amount to almost £9 million since 1991.

Energywatch and Postwatch have actively represented the views of consumers

2.15 Energywatch and Postwatch have to rely on influence to engage government and the sector regulators, and to change the behaviour of service providers (paragraph 1.10). The Department of Trade and Industry's report recommends that consumer bodies should deepen and strengthen their strategic partnerships with regulators and Government. Energywatch and Postwatch have sought to exercise their influence by lobbying government and responding to consultations, and seeking improvements in the performance of service providers. In doing so, Energywatch and Postwatch have adopted a range of approaches to reflect the nature of the markets in which they operate (Figure 14). For example, Energywatch has adopted a policy of 'praising' companies that are performing well and 'naming and shaming' those who provide a poor quality of service. Postwatch is responsible for monitoring the performance of Royal Mail and, on occasions, this has led to it criticising the company publicly.

2.16 One of the consumer bodies' key relationships is with their sector regulator. Legislation encourages them to exchange information and secure consistent treatment of matters that affect them both. A memorandum of understanding sets out the framework within which the consumer body and sector regulator will work, and envisages that they will work together in an open and constructive manner. The memorandum between Energywatch and Ofgem has been supplemented by joint arrangements on handling complaints and enquiries, and on the exchange of information. It is important that, where appropriate, Energywatch and

14 Energywatch and Postwatch have sought to influence service providers

- Energywatch has conducted **campaigns**, including *Stop Now!* (Figure 16) and *Better Billing* (Appendix 4) aimed at changing supplier behaviour.
- Energywatch's Chief Executive has held **meetings** with energy companies to identify joint initiatives that will benefit the consumer e.g. developing formal standards for billing and the Association of Energy Suppliers Marketing code of practice designed to tackle mis-selling.
- Postwatch has **supported** the abolition of the second delivery and **campaigned** on the return of tabs to post boxes so that people know whether the last collection has been made
- Postwatch, with Postcomm, **monitor** the performance of Royal Mail on a quarterly basis, publish results and seek specific improvements

Postwatch provide their sector regulators with reliable and accurate data on issues which are causing problems for consumers. This data may be drawn from their analysis of complaints handling, input from their regional offices or research. Such a role represents a valuable input into the regulatory process, although their remit extends beyond this task.

2.17 Energywatch and Postwatch seek to work closely with their respective sector regulators. But consumer and regulatory interests do not always coincide and it is inevitable that, at times, the consumer body and sector regulator will adopt a different stance on key issues (Figure 15). Energywatch and Postwatch aim to establish constructive working relationships while maintaining their independence. In particular, Energywatch and Ofgem have held a series of high level meetings and agreed a joint work plan which identifies five priority areas for co-operation - switching supplier, compliance and enforcement of licence conditions, helping vulnerable consumers, customer transfer between suppliers, and billing. They are also revising their memorandum of understanding. Postwatch and Postcomm have co-operated closely on specific issues, such as the opening of the postal market to competition and size based pricing²², and are seeking to strengthen their links at a senior level.

22 Existing prices for letters and parcels depend only on their weight. Royal Mail wanted to take account of the size and thickness too, which would have a major impact on customers.

15 Examples of Energywatch and Postwatch work with their sector regulators

- Energywatch worked closely with Ofgem to tackle unsatisfactory doorstep selling practices and to improve the process of transferring customers between suppliers. It has also issued press releases supporting specific Ofgem activities, including their review of power cuts. There have, however, been disagreements. For example, an Energywatch response to an Ofgem consultation argued that price controls should be kept for customers with prepayment meters while Ofgem thought that they should be removed.
- Postwatch has supported Postcomm's initiatives to introduce greater competition in the postal market and to improve Royal Mail services. But, on other occasions, Postwatch has been openly critical of the regulator's approach; for example, the short consultation period on key elements of Royal Mail's price control.

2.18 Energywatch and Postwatch can point to major initiatives where they have influenced the government, sector regulators and service providers to the benefit of consumers (Figure 16). In addition, after 18 months of

negotiation Royal Mail agreed to give details of Postwatch to complainants. And, with media support, Energywatch secured assurances from British Gas that its discounts and long-term repayment schemes would be offered to its 50,000 customers that Energywatch claimed had not received a recent bill. Measuring their overall impact on key stakeholders is not easy, but neither has established a consistent approach to evaluating their influence. As a result, it is difficult to form an overall judgement on the impact that Energywatch and Postwatch have had in their first three years.

2.19 The Enterprise Act 2002 has strengthened consumer protection by introducing a new provision, known as "super-complaints". These complaints focus on areas where the interests of consumers are being significantly harmed and enable swift action to be taken. On receipt of a "super-complaint" from a designated consumer body, the Office of Fair Trading (OFT) or, as appropriate, the relevant sector regulator, is obliged to announce within 90 days what action, if any, will be taken. Consumer bodies can apply to the Department of Trade and Industry to be designated to submit "super-complaints". Energywatch applied in February 2004 and Postwatch is considering whether to apply.

16 Energywatch and Postwatch have been a positive influence for change

Energywatch's approach to tackling selling malpractices in the electricity and gas markets

After the liberalisation of these markets, it became apparent that selling malpractices were causing significant harm to consumers. Following a rapid increase in complaints, Energywatch launched the *Stop Now!* campaign to eradicate poor selling practices. This included:

- urging Ofgem to strengthen standards of sales methods as a licence condition and use its fining powers;
- strengthening the compensation to consumers for sales malpractices - a Code of Practice was introduced in May 2003; and
- pressing the industry to introduce a training and accreditation scheme for agents to improve standards.

Fewer complaints are now received about selling malpractices.

Postwatch's involvement in the rationalisation of the urban post office network

The Government has undertaken a programme to rationalise the urban network of post offices, with a planned reduction from 9,000 to 6,000 post offices by the end of 2004. Postwatch has a dedicated team of 15 staff to evaluate the plans for the closure of all post offices and there is evidence that Postwatch's work has had an impact, by:

- demonstrating that the closure programme was not being implemented in accordance with the original programme objectives;
- successfully opposing closures and obtaining modifications to the closure programme - including the withdrawal of 103 closure proposals; and
- securing improvements to the remaining network and ensuring the needs of vulnerable consumers are given due consideration.

In February 2004, following intensive lobbying of MPs by Postwatch and public campaigns to keep certain post offices open, the Department of Trade and Industry announced a 12 point action plan to improve the procedures for consulting on proposed post office closures.



Energywatch and Postwatch have used a range of methods to advise and inform consumers

2.20 Energywatch and Postwatch have undertaken a range of activities to raise awareness of their organisations and to educate consumers. These have included:

- providing information on their websites, including up-to-date comparative price and quality of service information on energy companies, and details of some of the different postal services available, compensation arrangements and a complaint form;
- using press releases to raise consumer awareness on service issues such as switching between gas and electricity companies, and Royal Mail's performance in next day delivery of 1st Class post;
- distributing leaflets and information packs to advise consumers, for example Energywatch's leaflet on the Priority Service Register; and
- implementing a one-stop service to ensure consumers could get access information and advice from Energywatch through a single point of contact.

2.21 Despite these activities, unprompted consumer awareness of Energywatch and Postwatch is relatively low. A survey in 2003 asked the public which organisations might help to resolve a gas or electricity complaint. Just 2 per cent of people mentioned Energywatch without prompting, compared to 22 per cent for the Citizens Advice Bureau Service. The levels of prompted awareness were 38 per cent for Energywatch and 94 per cent for the Citizens Advice Bureau Service. However, incurring additional expenditure specifically to raise awareness does not necessarily represent an effective use of resources. A more important priority is that consumers need to be able to contact Energywatch and Postwatch when needed. In the case of Energywatch, there is a clear route of access as details are included on all gas and electricity bills. In the postal market there is not such an obvious channel for raising awareness of Postwatch and providing contact details, but from 2002 the Royal Mail has given details of Postwatch when replying to complainants.

2.22 The Utilities Act 2000 and Postal Services Act 2000 set Energywatch and Postwatch a 'specific duty' to have regard to the interests of consumers who are of pensionable age, living with disabilities, chronically sick, on low incomes, or residing in rural areas. Energywatch and Postwatch have developed working relationships with a range of consumer organisations in order to reach vulnerable consumers and represent their interests. For example, several organisations representing vulnerable groups take part in Postwatch's Post Office Counters Advisory Group, which co-ordinates lobbying on topical issues affecting post offices. Postwatch has also developed

working relationships with organisations representing business users, such as the Trade Association Forum and the Personal and Small Business Mail Users Group. Energywatch and Postwatch have worked with other consumer bodies to facilitate and to deliver events, undertake joint initiatives and to share information and good practice. This has enabled them to distribute energy and postal information to vulnerable consumers and to provide advice about issues such as debt counselling and advisory services. These partnerships have also made it easier for Energywatch and Postwatch to refer consumers to specialist agencies where their needs are wider than the energy and postal markets.

2.23 We reviewed responses, which were mainly from companies, to Energywatch and Postwatch's consultations on their forward work programmes. These responses, supported by our own stakeholder consultation, showed that there is scope for more joint working with consumer organisations, such as the Citizens Advice Bureau Service, to ensure all sub-groups of consumers are well informed. In particular, consultation responses suggested that there was scope to better identify and address the specific needs of the different types of consumers, including the vulnerable and small businesses.

There is scope for Energywatch and Postwatch to achieve a greater impact in the future

2.24 There are some areas in which Energywatch and Postwatch could learn lessons from their existing approach. These include:

- **Making full use of commissioned research.** Energywatch and Postwatch have limited internal resources to analyse research results and rely largely on external consultants. We evaluated Energywatch's research data on billing and found that further analysis would have identified valuable information for their campaign ([Figure 17](#)).
- **Ensuring commissioned research is targeted to need.** We identified research in which there had been insufficient coverage of sub-groups of consumers, thus limiting the scope and impact of research results. There is a danger that a lack of rigour in survey design can undermine the robustness of the results.
- **Ensuring an appropriate balance between a strategic approach and flexibility to respond to emerging issues.** Postwatch did not continue their campaign on lost mail despite a continuing high level of public concern, as reflected in the media and the number of consumer complaints to Postwatch ([Figure 5](#) on page 12).

17 Further analysis by NAO of Energywatch's billing research

A main conclusion of the research was that 9 per cent of consumers had fallen into debt with their electricity or gas company because it had repeatedly issued estimated bills that did not reflect actual consumption. The National Audit Office carried out further analysis of the data and found that these consumers were significantly more likely to be:

- Social class ABs than DEs
- 15-44 years of age compared to 65+
- working rather than retired
- high income rather than low income
- paying by direct debit rather than cash/cheque

This information could have been used in targeting publicity to encourage people to read their meter and notify their energy companies of any significant differences.

Source: NAO analysis of NOP Research on consumers experiences of billing, April 2003 and Energywatch Better Billing Campaign leaflet.

The performance measurement systems of Energywatch and Postwatch do not enable them to assess their effectiveness

2.25 Good performance measurement systems seek to measure economy, efficiency and effectiveness. It is essential that all public bodies are transparent, responsive and accountable. The National Audit Office has identified good practice in selecting and designing performance measures in our report *Measuring the Performance of Government Departments*²³. In particular:

- good performance measurement helps departments to identify and communicate their priorities, plan cost-effective services and actively monitor progress;
- targets need careful implementation and must be supported by good quality data if they are to deliver improvements in performance, as well as accountability to Parliament and the public; and
- clarifying the link between activities and objectives helps departments design performance measures and set targets.

Performance measures have focussed more on efficiency than effectiveness

2.26 Energywatch and Postwatch are required to produce a forward work programme which sets out their main performance indicators (Appendix 3)²⁴. These are agreed annually with the Department of Trade and Industry. Energywatch and Postwatch report their performance against these targets through their annual reports.

2.27 There are marked differences in the nature of the performance targets set by Energywatch and Postwatch (Appendix 3). Energywatch has developed a wider range of measures which are more specific and include more outcome-based measures. Postwatch's measures are narrower in their coverage and focus exclusively on their activities, rather than measuring progress towards desired outcomes in the postal market. Neither body has yet introduced targets to cover the full range of their activities, particularly the impact of their influencing activities (paragraph 2.18). PwC identified that more needed to be done in respect of measuring their impact on key decision-makers, through stakeholder awareness surveys and through evaluating the outcome of their research campaigning and consultative work.

2.28 Energywatch and Postwatch have recognised the need to enhance their approach to performance measurement and the 2003-04 and 2004-05 forward work programmes demonstrate progress is being made. Energywatch has introduced a wider range of measures to cover its main activities and introduced some outcome-based targets, such as reductions in the number of complaints in areas where they have conducted campaigns to improve company performance. In April 2004 Energywatch presented to HM Treasury their proposals for a performance measurement framework that is applicable to all consumer bodies.

2.29 Energywatch and Postwatch have also introduced recognised project management approaches. This should improve their approach to evaluating the impact of their campaigns. Energywatch also plans to commission an independent survey to measure its influence on its key stakeholders. These changes would be further enhanced by a more consistent approach to post-project evaluation.

²³ NAO: *Measuring the Performance of Government Departments, HC301 of 2000-01, 22 March 2001.*

²⁴ *Postal Services Act 2000 and Utilities Act 2000.*

Measuring the effectiveness of Energywatch and Postwatch is not an easy task

2.30 Measuring the effectiveness of consumer bodies is not easy because they have to rely on influence to affect change in other organisations, notably their sector regulator and service providers. They do not have regulatory powers to stop unsatisfactory practices or fine companies. Invariably, they are one of many stakeholders working within their respective markets that are seeking to improve the service provided to consumers. Establishing a causal link between Energywatch and Postwatch's actions and changes in the quality of service, or policy change, is therefore difficult. Nevertheless, the Department of Trade and Industry's report encourages the consumer bodies to respond to the challenges associated with measuring outcomes to develop meaningful measures to evaluate performance. The Department recommends three levels of performance indicator: monitoring the performance of operations; outcome-based indicators for specific campaigns or initiatives; and stakeholder surveys to measure influence.

2.31 The National Consumer Council, who also lobby and campaign on consumer issues, has developed a comprehensive set of performance indicators to measure its reputation and impact. PwC identified their approach as best practice. The Council considers its reputation to be a critical success factor for its ability to influence policy makers and assesses this by carrying out annual surveys on decision-makers and partner organisations to seek feedback on their effectiveness, profile and strengths and weaknesses. To measure impact, the Council conducts an independent review of its projects to assess the project quality, impact and degree of influence exerted. A variety of sources are used to inform this assessment, including meetings with stakeholders, which is subsequently reviewed by an external adviser.

Part 3

The costs incurred by Energywatch and Postwatch

3.1 This Part of the Report examines the expenditure of Energywatch and Postwatch in the first three years of their existence. In particular, we consider the opportunities to reduce their running costs through alternative organisational structures and operational procedures.

The key drivers of running costs are staff and accommodation

3.2 In the three years to 31 March 2004, Energywatch spent £57 million (**Figure 18**) and Postwatch spent £27 million (**Figure 19**) - a total of £84 million. Both are funded by the Department of Trade and Industry, which subsequently recovers these monies from licence fees paid by electricity, gas and postal companies.

3.3 In the first three years Energywatch spent just under £12 million, some 20 per cent of its expenditure, to close down its predecessor bodies. This included £4.1 million on redundancy payments and £3.8 million in respect of offices not required by Energywatch. It continues to be responsible for leased buildings in Bristol, Chester and London that are not used by Energywatch but, due to the terms of the leases, have proved difficult to sell. Energywatch has managed to rent out some of these offices, which has reduced their annual net loss to £156,000.

3.4 Staff costs are the major running cost in Energywatch and Postwatch. In 2003-04, Energywatch spent £7.0 million on staff costs, some 55 per cent of its total running costs and Postwatch spent £4.0 million, some 39 per cent of running costs (**Figure 19**). The principal activity in each case was the handling of enquiries and complaints (**Figure 20**). In addition to this direct expenditure on staff, both bodies incur further staff costs indirectly as certain services are contracted out.

18 Energywatch's expenditure

Type of spend	To 31/03/02	2002-03	2003-04	Total
Running costs: Staff costs	9.2	6.4	7.0	22.6
Office costs	6.2	2.7	2.8	11.7
Other	5.5	2.2	3.0	10.7
Total	20.9	11.3	12.8	45.0
Close down costs	9.8	1.1	1.0	11.9
Total	30.7	12.4	13.8	56.9

Source: Energywatch

19 Postwatch's expenditure

Type of spend	To 31/03/02	2002-03	2003-04	Total
Running costs: Staff costs	2.1	2.7	4.0	8.8
Office costs	1.9	1.7	2.0	5.6
Other	4.4	3.8	4.3	12.5
Total	8.4	8.2	10.3	26.9
Close down costs	0.1	0	0	0.1
Total	8.5	8.2	10.3	27.0

Source: Postwatch

20 Staff costs of Energywatch and Postwatch in 2003-04 by activity

Activity	Energywatch		Postwatch	
	£m	As a % of total staff costs	£m	As a % of total staff costs
Enquiry and complaint handling	4.5	64	1.4	35
Other ¹	1.9	27	2.1	52
Common functions ²	0.6	9	0.5	13

NOTES

- 1 Postwatch's costs include staff (£0.6 million) engaged on work related to the Urban Reinvention Programme, a scheme to significantly reduce the number of urban post offices.
- 2 Finance, information technology, human resources and estates management

Source: Energywatch and Postwatch

21 Office costs of Energywatch and Postwatch in 2003-04

	Energywatch				Postwatch			
	To 31.3.02 ¹	2002-03	2003-04	Total	To 31.3.02 ²	2002-03	2003-04	Total
Total office costs ³	£6.2m	£2.7m	£2.8m	£11.7m	£1.9m	£1.7m	£2.0m	£5.6m
As a % of total running costs	30	24	22	26	23	21	19	21

NOTES

- 1 From 7.11.2000 (nearly 17 months)
- 2 From 1.1.2001 (15 months)
- 3 Accommodation costs (e.g. Rent, rates and maintenance) and office expenses (e.g. Travel, telephone and postage)

Source: Energywatch and Postwatch

3.5 The other major driver of annual running costs is office costs. Together, Energywatch and Postwatch spent £4.8 million on accommodation and office expenses in 2003-04 (**Figure 21**). These costs represented 22 per cent of running costs of Energywatch and 19 per cent of Postwatch in 2003-04.

3.6 Energywatch and Postwatch each have their own headquarters in the Victoria area of central London, which house senior staff and those associated with common functions. Energywatch's headquarters also house staff from their London and South East regional office. Postwatch's headquarters also house staff from two regional offices - the Greater London and the South East of England regional offices. Rent on the London office of Energywatch represents 61 per cent of its annual rent (**Figure 22**). The corresponding figure for Postwatch is 75 per cent, but as three of its regional offices are outsourced this is not directly comparable with Energywatch.

3.7 Staff and office costs represented 77 per cent of Energywatch's running costs in 2003-04 (Figures 18 and 21 above). Its central contact centre, a service that is outsourced, accounted for a further 7 per cent (£0.9 million), while the remainder included costs related to IT systems and publicity. Staff and office costs of Postwatch in 2003-04 accounted for only 58 per cent (£6.0 million) of its running costs in 2003-04. The cost of servicing and supporting the Postwatch Council and committees, including secretarial expenses, accounted for a further 17 per cent (£1.7 million). This represents an average of some £170,000 per committee. Other major areas of Postwatch expenditure were professional fees (14 per cent) and research (3 per cent).

22 The regional office networks of Energywatch and Postwatch, and their annual expenditure on rent

Energywatch				Postwatch			
HQ/Region	Office location	Current annual rent (£000)	As a % of total rent	HQ/Region	Office location	Current annual rent (£000)	As a % of total rent
HQ	Central London	302	30	HQ	Central London	437	68
London & South East		306	31	Greater London		45	7
Central	Birmingham	89	9	South East of England			
Southern	Bournemouth	42	4	East of England	Ely	16	2
North West	Manchester	92	9	Midlands	Stafford	10	2
North East	Newcastle	46	5	Northern England	Bradford	Outsourced	-
Scotland	Glasgow	71	7	South & West	Weymouth	Outsourced	-
Wales	Cardiff	54	5	Northern Ireland	Belfast	91	14
				Scotland	Edinburgh	Outsourced	-
				Wales	Cardiff	43	7

Source: Energywatch and Postwatch

Energywatch and Postwatch have sought to improve their efficiency

3.8 Energywatch and Postwatch have made efforts to improve the efficiency of their operations:

- both have established a central contact centre to handle telephone enquiries, which enables calls to be filtered so that experienced staff can concentrate on handling complaints rather than routine enquiries;
- in November 2003, Postwatch located its contact centre in Northern Ireland to take advantage of lower staff and accommodation costs;
- in 2003, Postwatch re-tendered the work of the seven regional offices it had outsourced, with the result that three remain outsourced and the number operated directly increased from two to six; and
- in April 2004 both Energywatch and Postwatch introduced new arrangements for recording costs by activity and project that should help them to improve the way they monitor and control progress against their plans.

There is a balance of benefits from the network of regional offices

3.9 Energywatch and Postwatch each have a network of regional offices. Staff in these offices handle complaints from consumers in their catchment area, liaise with local bodies, monitor local issues and provide support to regional committees. Energywatch and Postwatch gain important benefits from their regional structures. In particular, it enables them to maintain an awareness of

current regional issues and both have established good links with the Welsh and Scottish media and developed effective working relationships with the Scottish Executive. The regional structures also enable Energywatch and Postwatch to more effectively tackle problems in the markets which are regional or local in nature. Postwatch, for example, has used its regional committees to support its input into the programme of urban Post Office closures. Energywatch and Postwatch also believe that their regional structures have increased their effectiveness in dealing with complaints, running media campaigns and enabling them to maintain close links with local companies in their markets.

3.10 The majority of the relevant comparator organisations examined by PwC (Appendix 1) adopted a centralised, rather than regional, approach to handling complaints. The Rail Passengers Council has also begun to centralise its complaint handling. In its view, while it needs to understand the policies and practices of local suppliers, and have a good working relationship with them, its complaint handling does not have to be regionally based. Alternatively, WaterVoice continues to undertake complaint handling at a regional level as it operates in an industry that has distinctive regional characteristics, with the result that effective complaint handling and resolution requires a good understanding of the policies and practices of local suppliers, as well as development of effective working relationships with these suppliers. Such characteristics feature less in the energy market, which increasingly operates on a national basis, while the postal market is dominated by one large national company, Royal Mail.

- 3.11 The cost of maintaining the Energywatch regional structure in 2003-04 was £7.0 million, of which £5.0 million (71 per cent) was spent on staff salaries and £2.0 million (29 per cent) related to accommodation, office expenses and utilities. For Postwatch, the total cost was £2.9 million, which comprised £1.0 million (34 per cent) for the three offices that have been outsourced (Figure 22), staff costs of £0.6 million (21 per cent) and £1.3 million (45 per cent) for rent, rates and other operating costs.
- 3.12 There are also indirect costs in managing the network of regional offices. Although these costs are more difficult to quantify, the main areas of support provided by the head offices of Energywatch and Postwatch include:
- encouraging the sharing of best practice in relation to complaint handling;
 - performance management and procedural advice on the delivery of some core functions of the regional offices, in particular enquiry and complaint handling;
 - advice and support on regional consumer-awareness raising and communications activities; and
 - back-office services such as finance, human resources and IT support.

The case for a network of regional offices is unclear

- 3.13 PwC was unable to identify sufficient data to establish whether regionally based organisations outperformed organisations with centralised structures. However, Energywatch's recognition, given its limited resources, of the need to engage with its target audiences through intermediary bodies rather than directly, indicates that a permanent regional presence may not be crucial to delivering these activities. Furthermore, given limited resources, there are trade-offs to be struck between the costs (direct and indirect) of managing the network of regional offices and the benefits of deploying specialised resources locally. PwC concluded that, while there may be some benefits in using regional resources to handle complaints, centralisation would facilitate a more flexible use of resources and would encourage a more efficient and consistent treatment of complaints.

- 3.14 Some of the key benefits from Energywatch and Postwatch's regional structures are obtained from the work of regional committee members in developing close relationships with local companies and organisations (paragraphs 3.9). This was very important for Postwatch in its campaign to review the Government's proposed rationalisation of the network of urban post offices (Figure 16). However, such benefits could be obtained by alternative structures, for example by supporting more than one regional committee from a single location. In addition, the benefits from the present regional structures are counterbalanced by equal or greater disadvantages. For example, in relation to complaint handling, the benefits that a regional structure provide in being able to address local issues is counterbalanced by the inability to achieve economies of scale and the risk of inconsistency in the treatment of complaints.

Energywatch and Postwatch should evaluate the options to reduce costs while maintaining the benefits of regional representation

- 3.15 There is a strong case for undertaking an evaluation of alternative structural options and, specifically, to consider whether a more centralised structure would enable savings to be made. There is the potential for savings and benefits in areas such as:
- estates and facilities management costs associated with occupying multiple locations;
 - the additional overheads in relation to information technology, financial functions and human resources activities to support a devolved structure;
 - co-ordination and management of devolved activities; and
 - opportunities to deploy staff more flexibly, and to introduce greater commonality of processes and systems of work than has yet been implemented, in particular in handling and resolving enquiries and complaints.

3.16 PwC identified three options for further investigation. These are set out in detail in Appendix 2 and are summarised below:

- (a) **Regional consolidation.** This option would see a shift to a smaller number of regional offices overseeing larger geographical areas of England, whilst preserving the offices in Scotland, Wales and, for Postwatch, Northern Ireland.
- (b) **Corporate integration.** In this option there would be a much larger central office, preferably in a location where accommodation costs are much lower than central London, which would integrate the functions of the regional offices, including complaints. This option should be evaluated in the context of the Lyons review, which examined the potential to disperse public service activities from London and the South East to other areas of the United Kingdom²⁵. This option also includes joint procurement of some support services with other consumer organisations.
- (c) **Strategic consumer advocacy.** This option would see enquiries and complaint handling delivered through an outsourced contact centre, with the potential of Energywatch and Postwatch entering into a joint arrangement with each other and other consumer bodies. Support functions would also be outsourced, potentially through purchasing partnerships with other consumer bodies. The core functions of Energywatch and Postwatch would be done in-house, with a primary focus on advocacy, policy development, campaigning and influencing.

3.17 Any assessment of whether a more centralised structure would be more efficient than present arrangements needs to consider the financial and non-financial costs of transition, especially in view of the relatively small size of Energywatch and Postwatch. Financial costs are likely to increase as the period of transition becomes shorter. And an important non-financial cost of transition is the diversion of managements' attention away from core functions, especially only three years after establishing their organisations. Furthermore, Energywatch has already undertaken a process of centralisation to reduce the network of 23 local offices, which they inherited, to their existing structure of seven regional offices. As shown in paragraph 3.3, this has cost £12 million over the last three years.

The Department of Trade and Industry is proposing wider policy changes for consumer representation

3.18 Energywatch and Postwatch should ensure their decisions on future organisational and procedural changes are taken within the context of the evolving strategy for consumer representation that has been proposed by the Department of Trade and Industry and HM Treasury. Their report²⁶ includes recommendations on best practice for consumer bodies and raises two longer term possibilities: merging such bodies into a single organisation and extending alternative methods for resolving disputes, such as ombudsman schemes (paragraph 3.20). In July 2004 the Department of Trade and Industry also published a consultation document²⁷ which sought views on these proposals and the development of Consumer Direct to become a national first point of contact for all consumer advice (paragraph 3.26).

There are other potential ways of reducing costs

3.19 Handling enquiries and complaints has been Energywatch and Postwatch's largest single task (paragraph 3.4). Reducing the number of complaints received should lead to lower expenditure on this activity. Postwatch is concerned at the continuing rapid increase in the number of complaints it receives (Figure 4 on page 12) and the impact on its budget. Energywatch is also seeking to focus its activities more on consumer advocacy and, therefore, reducing the number of complaints received would release more resource to devote to this role. This might be achieved in three ways:

- **Encouraging service providers to improve their complaint handling systems.** Fewer complaints would come to Energywatch and Postwatch if companies processed complaints effectively in the first instance. Licensed electricity and gas suppliers are required to have and follow a code of practice agreed with Ofgem. WaterVoice seeks to ensure companies in the water industry maintain robust systems by undertaking each year an assessment of a small sample of complaints dealt with by each water company. The results contribute to the overall assessment by Ofwat²⁸ of each company's performance and to the adjustments that Ofwat makes when setting new price limits.

25 *Well Placed to Deliver? Shaping the Pattern of Government Service. An Independent Review of Public Sector Location - Sir Michael Lyons, March 2004.*

26 *Consumer Representation in Regulated Industries (14 July 2004).*

27 *Extending Competitive Markets: Empowered Consumers, Successful Business (14 July 2004).*

28 *Ofwat (the Office of Water Services) is the economic regulator of the water industry in England and Wales.*

- **Addressing the underlying causes of complaints.**

Energywatch has done this by analysing complaints data to focus its campaigns on the major issues raised by consumers. However, Postwatch has not used its complaints data to inform its approach to policy development to such an extent and lost mail remains a major cause of complaints to both Postwatch and Royal Mail²⁹.

- **Reduce the number of complaints that should have been directed to the service provider.**

In May 2004, with the help of the Department of Trade and Industry, Postwatch began discussions with Royal Mail to more closely integrate their complaint handling processes so that Postwatch only becomes involved where it can add value.

- 3.20 In the longer-term, the bodies might encourage the industries to establish their own ombudsman schemes. Ombudsmen are an independent and impartial means of resolving certain disputes outside the courts. They look into matters after a complaint has been made to the relevant body and cover various public and private markets. For example, the Office of the Telecommunications Ombudsman (Otelo) considers unresolved complaints by residential and small business customers against member companies in that industry. The member companies decide how the Ombudsman's costs should be recovered. At present, 20 per cent comes from a subscription based on each company's retail revenue while 80 per cent is recovered by charging for every complaint investigated. This provides a direct incentive to individual members to improve customer service and to resolve complaints. It is also a fairer system than the present arrangements in the electricity, gas and postal markets where licence fees are based on the number of customers.
- 3.21 The Department of Trade and Industry and HM Treasury identified the risk of dissipation of effort and duplication of resources across organisations which are devoted to consumer representation in the regulated markets³⁰. Energywatch and Postwatch have developed their own support and administrative functions, such as finance, information technology, human resources and estates management. Neither Energywatch nor Postwatch has actively considered the potential for sharing the burden of providing these functions and, as such, there is scope for closer joint working with each other, and other consumer bodies.

Budget setting could be strengthened

- 3.22 The annual budgets of Energywatch and Postwatch are set independently of each other by the relevant policy divisions of the Department of Trade and Industry. This process includes detailed discussions with senior staff of the bodies on their draft forward work plans (paragraph 1.17). These discussions focus on Energywatch and Postwatch's efficiency and objectives, and give attention to contextual matters such as developments in the relevant markets and any consequent problems for consumers. It is up to Energywatch and Postwatch to demonstrate to the Department of Trade and Industry the requirement for their annual budgets. But the Department do not take an overview of the individual budgets of consumer bodies, including Energywatch and Postwatch, in relation to the overall level of detriment suffered by consumers in the respective markets.
- 3.23 As non-ministerial Government departments, the annual budgets of Ofgem and Postcomm are agreed by HM Treasury. The Department of Trade and Industry is not involved in this process, which reflects the regulatory independence of Ofgem and Postcomm. When setting the budgets of Energywatch and Postwatch, the Department does not consider the overall level of expenditure on consumer representation in the energy and postal markets, which includes the sector regulators and other publicly funded organisations. These include the Citizens Advice Bureau Service in England and Wales, even though the DTI provides grants to this Service though its funding of the national Citizens Advice organisation. There are also 52 Energy Efficiency Advice Centres in the United Kingdom which are largely funded by the Department for Environment, Food and Rural Affairs³¹ and, similarly, there is little co-ordination between government departments on the budgets of these bodies. As a result, there is a risk that the level of consumer representation in the energy and postal markets becomes disproportionate to the level of consumer detriment in these markets.

²⁹ In 2002-03, Royal Mail received 904,000 complaints and paid out £8 million (from a total of £11 million) in compensation with regard to lost mail.

³⁰ Department of Trade and Industry and HM Treasury: *Consumer Representation in Regulated Industries* (14 July 2004).

³¹ *Energy Efficiency Advice Centres provide free and impartial advice to householders on cost-effective ways of saving energy. They operate with financial support from the Energy Saving Trust, which itself receives the majority of its funding from the Department for Food and Rural Affairs, Department of Transport and the Scottish Executive. The network of Centres is to form the basis of a network of Sustainable Energy Centres, due to become fully operational in 2008-09, whose role will continue to include providing advice to householders on energy efficiency, small scale renewables and clean transport.*

3.24 There is also a risk that the level of consumer representation in the energy market and postal market becomes disproportionate to other markets. The Office of Fair Trading (OFT) is responsible for ensuring that markets work well for consumers and has a budget of £45 million. The OFT covers most markets, some of which have been a consistent source of consumer complaint; for example, in 2002-03 local authorities and advice agencies notified the OFT that they had received 309,000 complaints from consumers about home maintenance and domestic appliances, and 63,000 complaints about second-hand motor vehicles. Unlike Energywatch and Postwatch, the OFT does not seek to resolve individual complaints. Instead, it takes action nationally to raise consumer awareness of the pitfalls, while local Trading Standards offices have taken action against individual rogue traders.

There may be potential to scale back the operations of Energywatch and Postwatch

3.25 In principle, as competition and competitive pressures develop in the energy and postal markets, the level of consumer harm could fall as individuals see the ability to complain to their supplier, supported by the threat of switching supplier, as the best form of protection. This degree of competition in the future may not require sector specific consumer bodies, with consumers protected by general consumer legislation. Even high levels of competition could, however, co-exist with serious problems for vulnerable groups and could mask an inability on the part of some consumers to enjoy the full benefits of competition.

3.26 In the summer of 2004, the Department of Trade and Industry began the roll-out of Consumer Direct, which is a new telephone and online consumer advice and information service. The service, to be established nationally by 2006-07, is intended to be the first point of contact for consumers, referring them to specialist advice and redress services where necessary. Based on the service pilot in 2001-02, the Department of Trade and Industry estimate that just five per cent of the expected 1 million enquiries to Consumer Direct will concern the utility markets, with just one in four of these (i.e. 12,500) related to the energy market. If the number and nature of enquiries occur as expected, Consumer Direct will not have a material impact on the level of enquiries received by Energywatch and Postwatch in the short-term, although this may change as public awareness of Consumer Direct increases. In addition, the Department of Trade and Industry is consulting (paragraph 3.18) on whether Consumer Direct should become a national first point of contact for all consumer enquiries and advice, including all those currently directed to Energywatch and Postwatch.

Appendix 1

Study Methodology

Scope

- 1 In the course of our examination of Energywatch and Postwatch we sought to research two issues:
 - Whether Energywatch and Postwatch are effective in providing benefits to consumers; and
 - Whether Energywatch and Postwatch are working efficiently.

Collection of information

- 2 We reviewed documents relating to the establishment of Energywatch and Postwatch, and the setting of their priorities. We also held extensive discussions on these issues, and others, with the Chairman and staff of Energywatch and Postwatch. In addition, we visited the Glasgow office of Energywatch and the Ely and Edinburgh offices of Postwatch. We are very grateful for the co-operation provided to us during the course of this examination by Energywatch and Postwatch.
- 3 We completed a detailed review of the research programmes of Energywatch and Postwatch, and how the findings of individual pieces of research had been used. We also carried out further analysis of the data in the NOP's April 2003 report for Energywatch on billing. In addition, one of our experts in statistics and organising quantitative and qualitative research provided advice to both Energywatch and Postwatch on how they might develop their research programmes.

Review by PricewaterhouseCoopers (PwC)

- 4 In partnership with the Department of Trade and Industry and HM Treasury, we commissioned PwC to review the efficiency and effectiveness of Energywatch and Postwatch. Its work included comparisons against similar bodies (see box aside). Our partners in this commission were primarily concerned with gathering evidence to inform longer term policy formulation, in comparison with our focus on value for money. There were, however, significant areas where common evidence had to be collected. We therefore took the opportunity to work together to minimise costs and the disruption to the staff of Energywatch and Postwatch.

- 5 PwC began work in December 2003 and reported its findings in March 2004. Its review focused on:
 - a key functions (i.e. handling customer complaints, providing advice to individual consumers, consumer education programmes and responding to policy consultations);
 - b overhead costs (e.g. accommodation, information technology arrangements and human resources activities); and
 - c the cost, efficiency and effectiveness implications of the bodies' national and regional structures.

The following comparator organisations were considered by PwC:

- Air Transport Users' Council
- Financial Ombudsman Service
- General Consumer Council for Northern Ireland
- National Consumer Council
- Office of the Telecommunications Ombudsman
- Rail Passengers Council
- WaterVoice
- Energy & Water Ombudsman for Victoria, Australia
- Energy & Water Ombudsman for New South Wales, Australia
- Electricity Complaints Commission, New Zealand

Consulting stakeholders

- 6 We held preliminary discussions with Energywatch, Postwatch, WaterVoice and the Rail Passengers Council to identify the issues that our study should address. We also jointly organised, with the Regulated Industries Network, a seminar on 4 September 2003 that discussed the role of consumer organisations in the utility sector. The seminar was Chaired by Professor Stephen Littlechild, formerly Director General of Electricity Supply. The 70 invited guests from the regulated industries, the utility regulators and consumer organisations provided helpful feedback on the following areas:
- What help and protection do consumers need?
 - What are challenges ahead for the regulated industries in meeting the needs of consumers, and for consumer organisations in helping and protecting consumers?
 - Handling complaints
 - Disseminating information to consumers
- 7 During our examination we also met with Centrica plc, Citizens Advice, the Department of Trade and Industry, the National Consumer Council and the Royal Mail Group plc.

Appendix 2

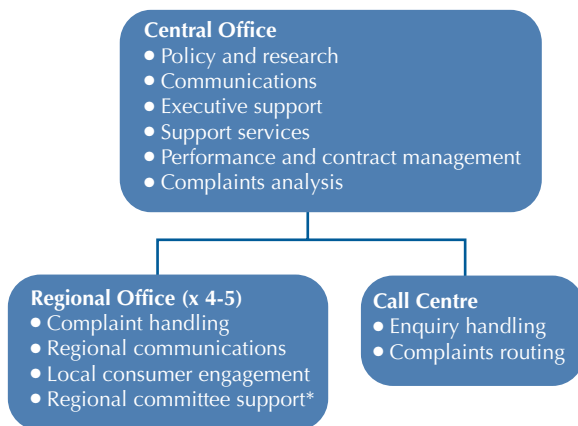
Three alternative structural options put forward by PwC

Option 1: Regional consolidation

This option would involve some consolidation of the existing regional office structures of both organisations, in order to achieve economies of scale in the delivery of the regional functions, in particular complaint handling. The current distribution of functions between the regional offices, the call centres and the central offices of both organisations would not change significantly - there would simply be a shift to a smaller number of regional offices overseeing larger geographical areas³². Consolidation could be arranged in a way that preserved regional offices in Wales and Scotland for both organisations, which both have argued is important in enabling them to engage effectively with the devolved administrations in those nations. In the case of Postwatch a change in the regional office structure would not necessarily imply a change in the number of Regional Committees.

This option is illustrated in **Figure 23**.

23 Option 1 - Regional consolidation



* Postwatch only

Option 2: Corporate integration

This option would involve a significant degree of centralisation of functions compared with the existing organisational arrangements for Energywatch and Postwatch. This model would involve establishment of a much larger central office, which would integrate the functions of the existing regional offices, including complaints handling and other regional functions. The organisations' existing call centres would continue to handle enquiries as is the case at present. This model seeks to achieve further efficiency savings through economies of scale in service delivery through a significantly expanded central office, along the lines of the Financial Ombudsman Service.

There might be further opportunities for efficiency savings in such a model through joint procurement of some support services with other consumer organisations. This option is illustrated in **Figure 24**.

24 Option 2 - Corporate integration



* Postwatch only

³² At the time PwC prepared Option 1 a similar change was being considered for WaterVoice. This change will be implemented in the context of establishing the Consumer Council for Water under the provisions of the Water Act 2003.

Option 3: Strategic consumer advocacy

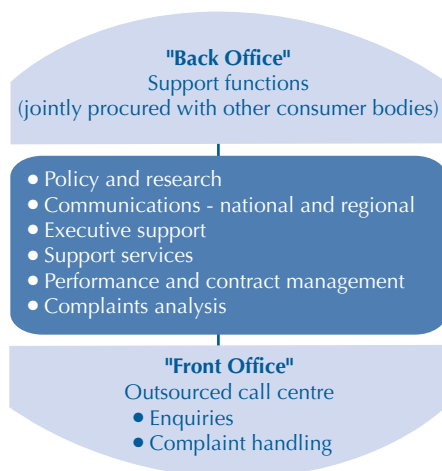
Option 3 builds on the potential opportunities offered by developments such as Consumer Direct, as well as alternative means of sourcing 'back office' functions such as HR and IT. The model envisions a tripartite division of functions within Energywatch and Postwatch, as follows:

- 'Front office' services, including consumer enquiries and complaints received through any communications channel.
- 'Core advocacy' functions, including policy and research, communication and lobbying, complaints analysis, and performance management and procurement.
- 'Back office' services, including transaction services, IT services, HR, and other support services.

'Front office' services would be delivered through an outsourced contact centre, building on the call centre arrangements currently in place for both Energywatch and Postwatch. This could potentially be procured jointly by more than one consumer body, should there be a supplier with the IT capacity and skills base to provide an integrated complaints handling service to more than one sectoral consumer body. Consumer Direct will provide valuable evidence about the potential for the provision of multi-service consumer advice.

Core functions would be provided by a dedicated in-house team, with a primary focus on advocacy, policy development, campaigning, and influencing. A secondary focus would be on performance management of externally procured front and 'back office' services. 'Back office' services would be procured externally, potentially through purchasing partnerships with other consumer bodies. **Figure 25** illustrates this option.

25 Option 3 - Strategic consumer advocacy



Risks

The benefits and risks associated with these options are summarised in **Figures 26-28**.

26 Option 1 - Regional consolidation

Potential benefits	Potential risks
Efficiency savings through generating economies of scale in staffing, and reduced occupancy costs.	Transition costs associated with consolidation, including potential loss of experienced staff and financial costs associated with possible relocation.
More effective service delivery and less vulnerability to fluctuations in demand and staff availability, through concentrating expertise in larger groups of regional staff.	Reduced capacity for direct, local engagement with consumers and consumer organisations with potentially lower consumer awareness of organisations and reduced responsiveness to local consumer concerns.

27 Option 2 - Corporate integration

Potential benefits	Potential risks
Significant efficiency gains in service delivery, in particular complaint handling, through scale of operations within single organisational unit.	Complex and costly management arrangements or span of control problems in managing a large central team.
Better linkages between complaints analysis and policy and campaigning achieved through tighter organisational linkages.	Key strategic advocacy activities such as policy and research, communications, and lobbying are 'crowded out' by much larger complaint handling business within the same management structure.
Possibilities for joint procurement of some 'back office' services with other consumer advocacy bodies could yield further efficiency gains.	Practical difficulties in agreeing common service specifications and procurement arrangements for joint procurement.

28 Option 3 - Strategic consumer advocacy

Potential benefits	Potential risks
Significant savings in running costs through jointly procured front and back office services.	Would require very sophisticated procurement and contract management skills, beyond current capacity levels.
Enables a very tight focus on key elements of consumer advocacy, while maintaining effective management of complaints handling and consumer engagement through robust procurement arrangements.	Loss of delivery capability in event of market failure due to high levels of dependency on external suppliers for key elements of core services and support services.

Appendix 3

Key Performance Indicators

Energywatch

Key performance indicators ¹	2002-03		2003-04		2004-05
	Target	Outturn	Target	Outturn	Target
1. Delivering effective consumer services					
■ Consumer satisfaction with complaint handling	85%	83%	90%	86%	n/a
■ Consumers rating our service as good or excellent	n/a	n/a	n/a	n/a	90%
■ Consumer cases resolved within 35 working days of receipt	75%	37%	75%	70%	75%
■ Consumer cases resolved within 66 working days of receipt	95%	68%	95%	89%	95%
2. Creating confident and assertive consumers					
■ Public awareness of Energywatch products and services	n/a	n/a	n/a	n/a	40%
■ Provision of pricing information which enables consumers to make informed decisions about switching supplier	n/a	n/a	130,000	552,641	n/a
■ Consumer requests for information (including leaflets/ website) on choice in the market	n/a	n/a	n/a	n/a	200,000
■ Increase in the number of enquiries and requests for information and advice	n/a	n/a	n/a	n/a	25%
■ Ensure consumer requests for literature are fulfilled within two working days of receipt	n/a	n/a	90%	100%	95%
■ Increase spontaneous consumer awareness of Energywatch	150% increase (to 2.5%)	100% increase (to 2%)	10%	2%	n/a
■ Ensure consumers report 'Reachout' as a positive experience	85%	83%	65%	100%	n/a
3. Championing the interests of vulnerable consumers					
■ Increase in the number of consumers on the Priority Services Register	n/a	n/a	n/a	n/a	10%
■ Referrals of consumers to Government energy efficiency schemes for advice and help	10,000	7,500	15,000	n/a ²	10,000
■ Reduction in number of prepayment meters installed in low income homes by March 2005 (to help eradicate fuel poverty)	5%	3 year target ending 2005	5%	3 year target ending 2005	n/a

Energywatch *continued*

Key performance indicators	2002-03		2003-04		2004-05
	Target	Outturn	Target	Outturn	Target
4. Promoting an effective market					
■ Reduction in the number of consumer complaints to Energywatch about direct selling	n/a	n/a	30%	62%	n/a
■ Reduction in the number of account and billing complaints to Energywatch by March 2006	n/a	n/a	15%	3 year target ending 2006	15%
■ Reduction in the number of erroneous transfer complaints to Energywatch by March 2006	n/a	n/a	30%	n/a	30%
■ Reduction in complaints received by companies	n/a	n/a	5%	n/a ³	n/a
5. Achieving consumer rights through compliance and enforcement					
■ Obtain super-complaint status (see paragraph 2.19)	n/a	n/a	n/a	n/a	2nd Quarter
6. Secure, efficient and safe energy networks and supply					
■ Increase circulation of supply performance information	n/a	n/a	n/a	n/a	10%

NOTES

- 1 The headings shown are for 2004-05 and may vary from previous years. Individual Key Performance Indicators for 2002-03 and 2003-04 are shown under the most relevant current heading.
- 2 Complaint code changes have rendered this data unreliable.
- 3 Data is not yet available for 2003-04.

Postwatch

Key performance indicators	2002-03		2003-04		2004-05
	Target	Outturn	Target	Outturn	Target
1. Contributing to the development of an effective postal service market by representing the interests of consumers and effectively, comprehensively and promptly commenting on proposals and issues affecting them.					
■ To achieve a 100% response rate to all consultations issued by Postcomm requiring substantive comment from Postwatch.	100%	100%	100%	100%	100%
2. Pursuing complaints made against postal operators, efficiently and effectively measured by number, quality of response and time.					
■ Complaint Handlers to reach an annual number of cases (on a full-time equivalent basis)	n/a	n/a	850	1000	925
■ Super-complaint status achieved (see paragraph 2.19)	n/a	n/a	n/a	n/a	Quarter 4
3. Informing consumers about the state of and developments in the postal services market including undertaking research and publicising the outcome.					
■ To increase the number of unique visits per week to Postwatch's web site.	800	2000	900	2500	1000
■ To run at least one major campaign on a postal service or related issue each year.	1	1	1	1	2

Postwatch *continued*

Key performance indicators	2002-03		2003-04		2004-05
	Target	Outturn	Target	Outturn	Target
4. Protecting the interests of all consumers including individuals on low incomes, elderly people, disabled people and those who are chronically sick and those in urban deprived and rural areas. <ul style="list-style-type: none"> ■ To respond, within agreed deadlines, and to analyse all closure plans received under the Post Office Ltd's Urban Network Reinvention programme 	100%	100%	100%	100%	100%
5. Managing Postwatch effectively. <ul style="list-style-type: none"> ■ To gain approval for Postwatch's Welsh Language Scheme ■ To introduce a Resource Accounting and Budgeting system into Postwatch ■ To introduce an Electronic Records Management System into Postwatch 	Quarter 3 n/a n/a	Quarter 3 n/a n/a	n/a March 04 n/a	n/a March 04 n/a	n/a n/a Quarter 3
6. Complaint handling. <ul style="list-style-type: none"> ■ Acknowledge a complaint within 2 working days of receipt ■ Where appropriate, take up a complaint with the relevant postal operator within 5 working days ■ Provide a substantive reply to the complainant within 5 working days of receipt of the response from the postal operator ■ As appropriate, keep the complainant informed of any delays in the progress of their complaint ■ Provide a substantive reply to the complainant within 10 working days, if we do not take up the complaint with the relevant postal operator 	90% of all complaints received	78% of all complaints received	95% of all complaints received	93% of all complaints received	97% of all complaints received (Note: The target for 2005-06 has already been set - 98%)

Appendix 4

Actions taken by Energywatch and Postwatch on areas of major concern

Major areas of concern addressed by Energywatch

Area of concern	Action and outcome
Billing and metering: Late bills and large bills due to previous estimates not reflecting consumption	<p>Ongoing</p> <p>Research leading to the <i>Better Billing</i> campaign in 2003 aimed at changing supplier behaviour.</p> <p>Advice developed for consumers about the treatment of late bills.</p>
Debt and disconnection: Over 500,000 consumers are repaying debt to their fuel supplier.	<p>Ongoing</p> <p>Joint working by Energywatch and Ofgem. They examined the main causes of debt and developed good practice Debt and Disconnection Guidelines (January 2003) that fuel suppliers could adopt to prevent debt problems occurring.</p> <p>Strategies for prevention of debt and disconnection received and discussed with all suppliers.</p> <p>Interim report to be published highlighting concerns and good practice. Then final report and monitoring in due course.</p>
Unsatisfactory sales tactics: Initially on the doorstep but now including sales by telephone	<p>Ongoing</p> <p><i>Stop Now!</i> campaign in 2002 to address selling malpractices.</p> <p>Urging Ofgem to strengthen standards of sales methods as a licence condition and use its fining powers.</p> <p>Strengthening compensation for financial loss incurred during sales malpractice - a Code of Practice was introduced in May 2003.</p> <p>Applying pressure for clearer standardised contracts.</p> <p>Complaint levels have since fallen from an all time high of summer 2002.</p>
Lack of switching to alternative gas and electricity supplier to obtain lower prices and better service	<p>Ongoing</p> <p>Pricing research leading to a <i>Switch and Save</i> campaign to encourage consumers who had never switched energy supplier to shop around for a better deal.</p> <p>Campaign relaunched through the issuing of press releases urging consumers to switch whenever energy companies announce price rises.</p>
Company performance: Those with a high level of consumer complaints	<p>Ongoing</p> <p>The <i>COMPARE</i> campaign. This encouraged consumers who have a problem with their energy supplier to complain to the company and to switch to a new supplier if they remain dissatisfied.</p> <p>Energywatch price comparison factsheets show both prices and a league table of company performance on accounts and billing complaints.</p>
Vulnerable consumers not well informed on energy issues and the benefits of competition	<p>Ongoing</p> <p><i>Reachout</i> programme. This provides information, advice and guidance directly to those who need it most.</p> <p>Initially Energywatch sought to help individual consumers directly. It found, however, that it had insufficient resources to make a significant impact that way. It therefore adopted a revised approach of working through local intermediary bodies.</p>

Major areas of concern addressed by Postwatch

Area of concern	Action and outcome
<p>Urban Reinvention programme: The reduction of urban post office network from 9,000 to 6,000 offices</p>	<p>Postwatch evaluates each proposed closure of a post office, and makes a recommendation to the Post Office.</p> <p>There is evidence that Postwatch's work has had a significant impact, by:</p> <ul style="list-style-type: none"> ■ showing that the closure programme was not meeting the original objectives ■ successfully opposing closures and obtaining modifications to the closure programme (including the withdrawal of 103 closure proposals); and ■ securing improvements to the remaining network and ensuring the needs of vulnerable consumers are considered. <p>Intensive lobbying of MPs by Regional Chairmen and their regional teams - and public campaigns to keep certain post offices open - has resulted in Ministerial intervention. A 12 point action plan on post office consultation was published in February 2004.</p>
<p>Lost Mail: This has persistently been the largest single type of complaint to Postwatch</p>	<p>Press campaign from 2002 to reduce lost mail. The campaign stopped in July 2003 despite a continuing high level of complaints to Postwatch and the Royal Mail (55% of complaints in 2002-03).</p> <p>From April 2004 Postwatch concentrated on misdelivery as its research indicated that this is a major cause of lost mail as people do not always re-direct misdelivered letters.</p> <p>Postwatch plan research on lost mail in 2004-05.</p>
<p>Changes to the way pensions and benefit are paid that impact on post offices</p>	<p>Ongoing</p> <p>The Government is changing the payment of benefits and pensions. Postwatch campaigned for information which is clear, impartial and enables customers to make an informed decision, including the application process for a Post Office Card Account.</p> <p>In May 2004 the Department for Work and Pensions announced that vulnerable customers can be paid by cheque rather than by direct payment of benefits into an account.</p>
<p>Changes to the information provided to consumers at post boxes about collections</p>	<p>Postwatch campaigned for the return of the collection tabs as customers could no longer tell whether the last collection of the day has been made.</p> <p>The campaign was supported by research into postal collections.</p> <p>Royal Mail has stated that collection tabs will be reinstated but has not yet indicated when.</p>
<p>Introduction of the Single Daily Delivery service (formerly known as the Tailored Delivery Service)</p>	<p>Ongoing</p> <p>Postwatch worked with Royal Mail, including a joint research programme, in developing new delivery options to replace the 2nd delivery - which absorbed 20% of delivery costs but delivered only 4% of mail, often after people have gone to work.</p> <p>The 2nd delivery has ended and a new delivery service started.</p> <p>Royal Mail is experiencing some problems with the introduction of the service and Postwatch is carrying out research into this.</p>
<p>Size Based Pricing: Application from Royal Mail to Postcomm to change the way it charges for delivering mail to take account of size.</p>	<p>Ongoing.</p> <p>Postwatch, in conjunction with Postcomm, developed an information leaflet for Postcomm's public consultation (April 2004) and circulated this extensively through Postwatch's regional network.</p> <p>Postwatch also commissioned research in this area to evaluate the impact of size based pricing on all customers. The results of this research will form part of Postwatch's response to Postcomm.</p>

Major areas of concern addressed by Postwatch *continued*

Area of concern	Action and outcome
Compensation	Postwatch was closely involved in the early stages of designing a statutory compensation scheme, and provided a comprehensive response to Postcomm consultations from the consumer viewpoint. Postwatch continues to monitor performance of this scheme with a long-term goal of improving the terms and scope of payments.
Disability Issues	Campaigned on a range of disability issues at post offices, including PIN pads accessibility and information given to disabled customers. Postwatch has also questioned general accessibility at specific post offices. Post Office Ltd has made significant improvements to all PIN pads in post offices, developed a website for customers that informs them of facilities for disabled customers at specific post offices and agreed to undertake particular improvements at specific post offices.
Liberalisation	Postwatch has consistently supported Postcomm in the introduction of competition as the best way to secure greater choice, better service and keener prices for consumers. Ongoing.
Operation of the Royal Mail's "Mailsort" contracts: Serious concerns raised by its customers	Following complaints to Postwatch, it submitted a detailed case to OFT for action as a "Super Complaint". The OFT referred the case to Postcomm for investigation, which decided after meeting a number of the complainants to close the case as it did not have reasonable grounds to suspect an infringement of any of Royal Mail's licence conditions or competition law.
Misdelivery	Following research, Postwatch announced its <i>Stamp out Misdelivery</i> campaign, giving tips to consumers and providing them with a complaints form.
Rural Network: Preparation for government announcement on rural post office network	Ongoing Lobbied government, MPs and others on importance of rural post offices, and submitted policy documents to government and other stakeholders. Postwatch has also contributed to Postcomm's committee overseeing research on the future of rural post offices and to Post Office Ltd's Rural Strategy Advisory Group, which advises on post office pilot activity.
Quality of Service	Ongoing Monitoring Royal Mail's performance against targets. Postwatch has consistently advocated financial penalties for failure in the absence of an appropriate compensation regime. Postcomm fined Royal Mail £7.5million for failing on two products in 2002-03.