

Energywatch and Postwatch

Helping and protecting consumers



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
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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

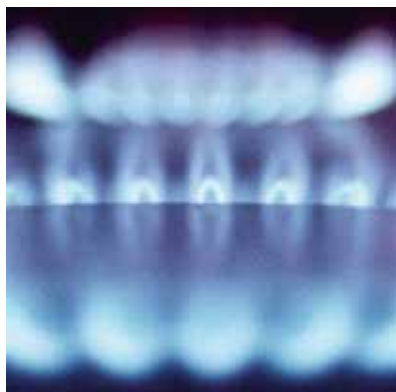
- a Energywatch and Postwatch should seek to develop a better understanding of the nature and extent of problems faced by consumers in their markets.** Energywatch and Postwatch have conducted important research, but they have not yet exploited this research sufficiently to provide a comprehensive view 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)