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Room B341  
Reference A73003/6  
Date 7 November 2003

Dear Mr Shaw

### Consultancy to Benchmark the Performance of Energywatch and Postwatch

I invite you to tender for a benchmarking review of Energywatch and Postwatch. The detailed terms of reference for this commission are enclosed. Tenders are required by **16.00 on Friday 21 November**.

Energywatch is the statutory independent consumer body for the electricity and gas industries, and Postwatch is the statutory consumer body for the postal sector. They have both been in operation for about three years. It is now an appropriate time to assess the efficiency and effectiveness of these bodies. Extensive information can be found on their websites ([www.energywatch.org.uk](http://www.energywatch.org.uk) and [www.postwatch.co.uk](http://www.postwatch.co.uk)).

This project is being jointly commissioned by NAO and DTI, in partnership with the Treasury.

Please set out in your tender:

- an outline of your intended approach to the project;
- an indication of the types of comparators you may use in your benchmarking;
- your credentials for carrying out such work;
- who from your organisation will be working on this commission, their expected level of input and appropriate credentials; and
- the total fee for undertaking this project.

We also require you to highlight any existing or potential conflicts of interest. Any such conflict does not necessarily exclude you from this commission.

If you have any questions on this project please contact Cerys Morgan of the Treasury's Competition Regulation and Energy Team. She may be contacted on 020 7270 4316 or by E-mail on [cerys.morgan@hm-treasury.x.gsi.gov.uk](mailto:cerys.morgan@hm-treasury.x.gsi.gov.uk).



INVESTOR IN PEOPLE

Please send your tender to: Norman Davies  
Business Manager Unit A  
National Audit Office  
Room B250  
157 - 197 Buckingham Palace Road  
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I look forward to receiving your tender.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ed Humpherson', with a long horizontal flourish extending to the right.

**Ed Humpherson**

**Director: Economic regulation value for money**

## DTI / NAO / HM Treasury

### Terms of Reference for ‘Benchmarking the Performance of Energywatch and Postwatch’

#### **Background**

In the United Kingdom, consumer representation has become an important part of the regulatory agenda. Consumer bodies are primarily concerned with the welfare of domestic consumers, but small businesses are also an important group. Across the regulated industries<sup>1</sup> there are a number of alternative models of consumer representation. Recent reforms have sought to strengthen consumer representation in the network industry sectors. In energy, post and water this has meant a move towards a separate consumer body for each sector, independent of both industry and regulator. In air transport, financial services and telecommunications there are different models. For example, in financial services there is a consumer panel integrated into the regulator and a separate Ombudsman for handling complaints.

The consumer bodies are largely funded by fees paid by the licence holders in their industries.

#### **Scope of the review**

The review will cover the Gas and Electricity Consumer Council (hereafter “Energywatch”) and the Consumer Council for Postal Services (hereafter “Postwatch”). These statutory bodies have been operational for about three years and hence there is sufficient evidence of performance on which to base a quantitative assessment. However, it is intended that other consumer bodies and relevant outside comparators are used for benchmarking purposes. Therefore the project has three dimensions:

- A detailed review of Energywatch and Postwatch
- Comparative analysis with other sectoral consumer organisations
- Benchmarking, where appropriate, against private sector organisations (e.g complaint handling)

The purpose of this review is to assess the effectiveness of each body in pursuing its statutory objectives. It is intended that the study will focus on the effectiveness and impact of each of the outputs of these bodies. It will also give the relevant Government spending teams, the NAO, the Treasury, consumer bodies themselves and consumers reassurance that each is efficiently run, to highlight what is done well, to identify any shortcomings and to encourage the spread of good practice. The successful tenderer will therefore review the efficiency with which the consumer bodies carry out their activities (listed below) and will make recommendations on best practice.

The successful tenderer will produce a report to the relevant spending teams, the NAO and Treasury. The report should be focused on Energywatch and Postwatch. However, the tenderer should be prepared to make recommendations where lessons may apply more widely. The

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<sup>1</sup> Air transport, energy, financial services, postal services, rail, telecommunications and water

report should also make clear which bodies/companies have been used as comparators and should include all comparative data used.

The report will be made available to Energywatch and Postwatch, together with the associated regulators. The DTI and Treasury will draw upon the report's findings to develop policy conclusions, and the NAO will use the report during its own value for money work on Energywatch and Postwatch. The report may also be made available to the public.

### **Detailed specification**

The review of Energywatch and Postwatch is expected to have three key elements:

- (a) A review of the economy, efficiency and effectiveness of the consumer bodies' key functions, including a benchmarking process that includes other consumer bodies, and some private sector comparators. The review will include:
  - Complaint handling
  - Policy development and influencing
  - Consumer awareness/education programmes
  - Research (The NAO has undertaken a detailed examination of what research has been commissioned by the consumer bodies. This will be available to the successful tenderer.)
  - Other key functions (e.g one to one advice)

This should also consider the relative costs of each of these functions. Specific attention should be given to the impact arising from the lack of control over the volume and timing of incoming work, together with the sharing of activities with sector regulators and industry.

- (b) the relative cost of the consumer bodies' common functions, comprising an overall comparison of overheads (e.g. operational support staff ratios, floor space per employee), and specific comparisons of the relative costs of press offices, IT/IS support costs, personnel and accounting/finance functions, and use of consultants versus in-house staff for research.
- (c) An assessment of the efficiency and effectiveness of national and regional structures of the consumer bodies. This should include a review of the costs and benefits (financial and other, such as the benefit of a local presence in delivering educational programmes) of a regional structure. The successful bidder should also assess alternative models.

In all three areas the tenderer should i) set out the costs of the relevant functions/activities for Postwatch and Energywatch; ii) benchmark them against each other and alternative bodies; iii) consider alternative models; and iv) draw conclusions on efficiency and effectiveness.

We would expect the successful bidder to focus on whether there are differences in performance between the consumer bodies which are due to inefficiency or exceptional efficiency and to make recommendations on best practice and possible improvements.

### *Benchmarking*

Besides benchmarking Energywatch and Postwatch against one another, we would also like their performance to be compared against other consumer bodies, and as appropriate Ombudsmen, in airports, financial services, rail, telecommunications and water. On complaint handling it may also be useful to compare with a private sector body. We do not have any particular organisation in mind.

Benchmarking carried out should be in terms of developing a set of best practice criteria (normative benchmarking). The distinction between quantitative and qualitative benchmarking should be made clear.

*Other relevant information*

The consumer bodies each work with a different industry, so there will be differences in their staffing levels, number of regulated companies etc. It will be important that any benchmarking/conclusions take account of these different circumstances to identify genuine cases of best practice and areas for improvement.

The review will be based on document scrutiny and interviews. We will ensure that the successful tenderer has direct contact with the Accounting Officers of Postwatch and Energywatch, who will facilitate access to all relevant documents and members of staff and will ensure that any basic factual information necessary for the study is provided as quickly as possible. Where possible, we will also provide necessary introductions to other possible comparators. However, the tenderers should not rely solely on our contacts.

**Timetable etc**

*Project supervision*

The successful tenderer will be appointed by and accountable to DTI, the NAO and Treasury. We expect to make the appointment in November.

There may be an opportunity for a break in the project whilst bodies prepare requested data.

*Length of contract*

The successful tenderer will be required to produce a report of their findings, analysis and recommendations within two months of appointment (unless there are significant delays in one or more of the consumer bodies providing information, which we do not expect).

The successful tenderer should allow a period of four weeks following completion of the final draft of their report for the interest parties (DTI, the NAO and Treasury) to review the report to ensure factual accuracy and also to have an opportunity to query points where they disagree with the draft analysis or recommendations.

**Steering Arrangements**

The successful tenderer will report to a steering group throughout the project on progress made. Exact arrangements will be discussed on award of the contract, however we may expect the consultants to provide fortnightly updates if necessary.

The Steering Group will consist of:

Ed Humpherson (NAO) – Chair  
Cerys Morgan (HMT) – Secretary  
Andrew Packer (NAO)  
Adam Land (HMT)  
Edward Blades (DTI)  
Geoff Hatherick (DTI)  
Jan Wright (DTI)