



# Specification of Requirement

## Study on the affordability of water and sewerage charges based on low income households

30 June 2017

For more information contact

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## 1. Introduction

1.1 The Consumer Futures Unit puts consumers at the heart of policy and regulation in the energy, post and water sectors in Scotland. Part of Citizens Advice Scotland, we research and gather evidence, which we use to improve outcomes for consumers.

1.2 The **purpose of the research** set out in this Specification of Requirement is to provide the Scottish Government's Long Term Charging Group with evidence to inform policy related to developing targeted support for households that are most likely to struggle to pay for their water and sewerage charges. The research will give us a true understanding of who this group of low income consumers is, ultimately allowing Ministers to make informed and accurate assessments of whether additional targeted support is required for this group of households.

1.3 The **objective of the research** is to identify a full profile of who the most vulnerable low income households with regards to water and sewerage affordability are, as well as options and the cost of providing targeted support to them.

## 2. Research Question

The primary research question is:

How can support be effectively targeted towards households which are at most at risk of being unable to afford their water and sewerage charges?

In order to address this question the research will need to address the following:

- What are the characteristics of households that pay most for water and sewerage as a proportion of income?
- How many households pay over 3% / 5% of their disposable income for water and sewerage<sup>1</sup>?
- What would the cost be of reducing this group's cost of water and sewerage to below 3% of their weekly income after housing costs, and how could this support be most effectively implemented?

The research will be used to inform policymakers about household profiles that are most at risk of being unable to afford their water and sewerage charges, and the cost of providing targeted support to these households.

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<sup>1</sup> The thresholds of 3% and 5% are used because indicators from *Affordability and debt 2014-15* (Ofwat, 2016) showed that affordability risks emerge when a household spends more than 3%, or more than 5%, of their disposable income (after housing costs) on water and sewerage charges.

*Affordability and debt 2014-15* (Ofwat, 2016) found that in England and Wales 24% of households spend more than 3% of their disposable income on water; and 11% of households spend more than 5% of their disposable income on water. Analysis of these indicators in terms of income shows that lower-income households are much more likely to be spending in excess of 3% or 5% of their income on their water and sewerage charges.

Previous research on water and sewerage affordability and debt in Scotland includes:

- Fraser of Allander (2016) *Recent trends in the affordability of water and sewerage charges in Scotland*
- Ofwat (2016) *Affordability and debt 2014-15*
- Consumer Futures Unit (2015) *Sink or Swim*
- Consumer Futures (2014) *Keeping Your head Above Water*
- Waterwatch Scotland and Heriot Watt University (2008) *Affordability of Scottish Household Water and Sewerage Charges*

### 3. Why research is necessary

#### Policy background

Domestic water and sewerage services are provided by Scottish Water, but water charges in Scotland are billed for and collected by Local Authorities. Local Authorities bill households for water and sewerage charges on their Council Tax Demand notice, which means households effectively receive one notification but two bills.

Households can adjust spending on items like electricity or food. However water and sewerage charges are fixed and do not provide households the opportunity to adjust their spending by using less. For low income consumer groups, this could be an issue.

Statutory consultees within the water industry in Scotland are currently working to provide Ministers with information that will inform policy on water and sewerage charges and charging principles<sup>2</sup>. As Scottish Water is a publicly owned company, policy decisions rest with Ministers.

The Scottish Government's Long Term Charging Group has been established to review charging policy for the water industry. The group has identified the need for further information on which consumer groups are most likely to struggle to pay for water and sewerage charges, and the cost of options to the industry.

Research findings will be presented to the Long Term Charging Group, and used to advise Ministers on any policy changes to existing charges

There is currently no official definition of 'water affordability' however 3% of household weekly income after housing costs is generally used.

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<sup>2</sup> Scottish Government (2015) *Principles of Charging 2015-2021*

## Future research

Previous research identified that some households may be more likely to struggle to pay for their water and sewerage charges. Further research is required to identify the characteristics of these households, options that will provide additional support and how these can be accurately targeted at those most at risk of being unable to pay.

### 4. Research objectives

- To identify the characteristics of households that are most likely to pay more for water and sewerage charges as a proportion of income.
- To identify how many households pay over 3% / 5% of their disposable income for water and sewerage charges.
- To identify the average length of time these households are in receipt of various benefits, which will inform understanding of for what period of time they are likely to pay over 3% / 5% of their disposable income for water and sewerage charges.
- To identify the percentage of household income after housing costs that households are paying towards water and sewerage charges.
- To identify the percentage of household income after housing costs that households are paying towards current water and sewerage charges and also outstanding debt (assuming direct deduction from benefit).
- To set out the factors that determine the proportion of household income after housing costs that is paid for water and sewerage charges, and which would provide the basis for a system of ensuring that targeted support consistently reaches the right household.
- To provide an assessment of affordability for households based on different Council Tax bands.
- To identify the cost of reducing this group's cost of water and sewerage to below 3% of their weekly income after housing costs, and how could this support be most effectively implemented.
- To identify costs to the industry associated with different models of targeted support.

The researcher should also be aware of the hardship fund that Scottish Water will consider in 2021 to coincide with their 2021-2027 Business Plan. Currently Ministers have decided to maintain Council Tax legislation as the rationale and basis for water and sewerage charges and as far as the CFU is aware there are no plans to change this in the foreseeable future.

## 5. Anticipated approach

The CFU has identified the Family Resources Survey as a data source that provides the majority of the data required to meet the research objectives. We therefore anticipate that the research will involve an analysis of this or similar survey data.

The Family Resources Survey has been used before to address the same issue, in the 2008 Waterwatch Scotland and Heriot Watt University report *Affordability of Scottish Household Water and Sewerage Charges*, which uses the Family Resources Survey to calculate water and sewerage charges as a proportion of household income, cross tabulated with income, council tax band and household composition. Ofwat also used the Family Resources Survey in their 2010 report *Affordability and debt 2009-10 – current evidence*, in which they determined that “affordability risks arise when a household spends more than 3%, or more than 5%, of their disposable income on water and sewerage bills.”<sup>3</sup>

The research we wish to carry out should update and extend this analysis, including other relevant demographic and economic factors to provide a fuller profile of the households of interest. Proposals should present an investigative plan, including the analysis that will be conducted and the rationale for the factors included in that analysis.

The proportion of household income spent on water and sewerage charges is the key measure of affordability. As mentioned above, Ofwat have proposed that 3% and 5% thresholds are used to identify the groups of consumers paying the most, as a proportion of income, for water charges. It should be noted that this proportion should be calculated using household income **after housing costs**.

The research should also estimate the cost of different options for providing targeted support and make recommendations about how support for consumers can be most effectively targeted at those who need it most. This should be led by the analysis of the characteristics of that group, but will also require a sound understanding of the Scottish public policy landscape as it relates to the water industry.

The budget for delivering this piece of research is in the region of £10,000.

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<sup>3</sup> Ofwat (2011) *Affordability and debt 2009-10 – current evidence*

## **6. Deliverables**

The project deliverables are:

- A detailed investigative plan, to be provided at an early stage of the research, detailing the analysis to be carried out;
- A draft report, submitted in sufficient time for comments to be incorporated and for our approval to be given before producing a final version;
- The final version report;
- A presentation of report findings and research methodology to the Long Term Charging Group on 28 November 2017.

## **7. Nature of the Report**

The research report will be used by a wide range of people within and outside of the Consumer Futures Unit, not just the team involved in commissioning the work.

Along with all of our research reports, this research is intended to contribute to the wider knowledge of issues and not just to the immediate research problem. As such, it must be capable of being used as a secondary source for a reasonable period of time after the research is completed. For these reasons it is essential that the report:

- Uses language accessible to readers with varying experience of research and consumer behaviour.
- Contains a comprehensive description of the research method, so that the reader understands what was done and the robustness and/or limitations of the data.
- Organises and, where appropriate, reduces the data so as to lead the reader either to clear conclusions or to a discussion of the implications of the findings.
- Avoids over-summarising or over-simplifying the findings.
- Contains clearly labelled charts, diagrams and tables (if appropriate) summarising and illustrating the results, with a narrative description of what the chart, diagram or table shows – do not leave it to the reader to interpret these.
- Contains a stand-alone Executive Summary, containing a brief description of the background, objectives, method, main findings and conclusions along with, if necessary a separate briefing-style paper.

## **8. Performance and quality requirements**

The Consumer Futures Unit is leading this work, and will require regular updates, including a project initiation meeting, to be held between the supplier and ourselves to ensure progress is on track and any difficulties are resolved promptly. Any anticipated shortfall in quality or similar failing shall be brought to the attention of the Consumer Futures Unit immediately. We advise suppliers to show how they adhere to a relevant Social Research Code of Conduct or, where appropriate, any other professional code of conduct, or quality systems that they have in place.

Final sign off on all research will be undertaken by the Consumer Futures Unit; ownership of all research outcomes, including the final report and all data produced as a result of the research also lies with the Consumer Futures Unit. The project will be managed by Rebecca Millar on behalf of the Consumer Futures Unit.

Suppliers should not discuss study findings in public without prior, written agreement from the Consumer Futures Unit. Suppliers must also obtain the Consumer Futures Unit's prior, written approval to use data or findings from this study for any proposed presentation or publication.

## 9. Form of proposal

We require proposals to be submitted electronically, in PDF format. All clarification questions must be made in writing and sent by email to [rebecca.millar@cas.org.uk](mailto:rebecca.millar@cas.org.uk) no later than 12 p.m. on Tuesday 11 July 2017. A response to all clarification questions of a substantive nature shall be issued to all bidders by 12 p.m. on Friday 14 July 2017.

Tenders must be sent to the project lead ([rebecca.millar@cas.org.uk](mailto:rebecca.millar@cas.org.uk)) no later than 12 p.m. on Wednesday 19 July 2017.

Bidders should complete tenders in the format indicated below. All questions must be answered in full.

### **Company overview and previous experience:**

- Please provide a brief overview of your organisation. This must include a brief history, and detail of your capability and capacity.
- Please provide details of your quality assurance procedures, including a project risk assessment.
- Please detail two case studies that evidence your ability to deliver the services required. This must include details of the brief, how you delivered the project and the objectives that were achieved.
- Please provide the names, addresses and contact details of two referees that could be contracted to provide a reference of your ability to deliver the services.
- Please declare if there is a conflict of interest in carrying out this work.

### **Key personnel:**

- Please provide a copy of the organisation chart.
- Please provide details of the personnel who shall be responsible for the delivery of the services. This must include a CV for these individuals that highlight their relevant skills and experience.

### Methodology and delivery of the services:

- Please provide detail of your understanding of the requirement, and evidence your skills and experience for carrying out the services.
- Please provide a detailed methodology of how you propose to deliver the services and objectives detailed in the Specification of Requirements.
- Please provide a detailed project plan for the delivery of the proposed methodology. This must clearly define who shall carry out the tasks in the plan and the number of days for completion.
- Please provide an outline of any ethical or data protection considerations you believe are relevant to the services.
- Please indicate how you adhere to any professional code of conduct, such as the Market Research or Social Research Codes.

### Commercial offer:

- Prices shall be quoted in pounds sterling and presented alongside discrete tasks and/or individual personnel (e.g. in a similar format to the project plan requested above) in a separate document to the rest of the tender and summarised in the accompanying pricing schedule. VAT, when applicable, should be shown separately as a strictly net extra charge. Please detail all costs associated with the provision of the services as any costs not detailed will be deemed to have been waived.
- Please note that it is CAS policy to pay the full amount on completion of the work, although some flexibility is possible in exceptional circumstances.

## 10. Evaluation criteria

The Consumer Futures Unit will make its selection on the basis of that proposal which represents the best value for money. The following criteria will apply:

Evaluation criterion	Description	Weighting
Methodology / Approach	Details and suitability of suggested approach, sampling strategy and data collection method Plans for dealing with any risks and contingencies Statement of ethical considerations and data handling/storage procedures where relevant	20%
Technical experience	Evidence of providing similar services to other organisations and particular skills/experience relevant to the problem Also include your performance on any previous projects for CAS	20%
Implementation plan	Details of your implementation plan to meet the timescales, including staffing and resources (including costs) assigned to each	10%



Understanding our business needs	Indication of a clear understanding of the problem and the research objectives	10%
Quality	Details of how you ensure that a high quality service is maintained throughout the contract period	10%
Added value	Details of what your company can bring to the research	5%
Price	A full breakdown of all costs should be given	25%
<b>Total</b>		<b>100%</b>

Tenders are evaluated by scoring against each of the above criteria using a 'zero to ten' scale, where zero equates to 'Clearly fails to meet the requirement' and ten equates to 'Excellent standard with no reservation at all about acceptability'. The supplier with the highest overall score will be awarded the contract.

Please note that on completion of all contracts, suppliers are evaluated against these same criteria based on their performance. This post-project evaluation will be considered in future tendering processes.

## 11. Procurement timetable

The Consumer Futures Unit will be working towards the following procurement timetable:

<b>Activity</b>	<b>Date</b>
Issue Invitation to Tender	Friday 30 June 2017
Closing date for clarifications questions	Tuesday 11 July 2017 (12 p.m.)
Date for responses to clarification questions	Friday 14 July 2017 (12 p.m.)
Tenders received by	Wednesday 19 July 2017 (12 p.m.)
Evaluation of tenders/quotes	Thursday 20 July 2017
Contract awarded	Monday 24 July 2017
Contract commences	Monday 24 July 2017
Inception Meeting	Tuesday 25 July 2017 (a.m.)
Draft report due (if applicable)	Monday 2 October 2017
Final report due (if applicable)	Monday 16 October 2017

## GLOSSARY OF TERMS AND ABBREVIATIONS

<b>Term</b>	<b>Description</b>
<b>Draft Report</b>	The 'draft report' should not be a rough version of the report, but the full report (proof-read, spell-checked and sense-checked) for review by the client project team