



# Consumer Futures Unit

## 2017-18

### Work Plan





## Contents

<b>Introduction .....</b>	<b>3</b>
<b>Energy .....</b>	<b>5</b>
<b>Post.....</b>	<b>13</b>
<b>Water .....</b>	<b>20</b>
<b>Cross-sector .....</b>	<b>27</b>
<b>Provisional expenditure 2017-18 .....</b>	<b>33</b>

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## CONSUMER FUTURES UNIT PURPOSE

Providing a voice for consumers in Scotland on energy, post and water

By working under a framework of internationally recognised consumer principles, we seek to deliver strategic outcomes through a combination of:

- Gathering and sharing evidence
- Developing consumer focused policy
- Improving consumer outcomes through advocacy

### OVERARCHING CONSUMER PRINCIPLES

Information

Access

Choice

Redress

Safety

Fairness

Representation

Markets are shaped around consumers

Services are accessible to consumers regardless of their income or location

Consumer principles are at the heart of government policy and regulation

Utility products and services deliver the right outcomes for consumers

STRATEGIC OUTCOMES

STRATEGIC OUTCOMES

## Introduction

The Consumer Futures Unit (CFU) puts consumers in Scotland at the heart of the energy, post and water sectors. We also consider cross-sector issues, areas where common concerns arise across these sectors. In all sectors, our work has three key strands:

- Gathering and sharing evidence.
- Developing consumer focused policy and recommendations.
- Improving consumer experiences through advocacy with business, regulators and government.

The policies and practices adopted by business, regulators and government are more likely to be successful if they are shaped around the needs of the consumers they affect. The CFU offers consumer insights to evaluate the impact of current approaches and to help develop those of the future, benefiting consumers, business and government.

This year the CFU is undertaking fourteen projects, including work to:

- Ensure that consumers' real life experience is reflected in the Scottish Government's new definition of fuel poverty, so it is an effective tool for targeting support at those in need.
- Reduce parcel surcharging in rural and remote areas through partnership working with the industry.
- In partnership with the Water Industry Commission for Scotland and Scottish Water, establish and support the new Customer Forum for Water to reach agreement with the company on price and service levels for the 2021-27 period.
- Examine the potential to deliver a single, integrated registration scheme for consumers in vulnerable situations.

Government responsibility varies for consumer issues in the three regulated sectors that the CFU covers; post is regulated at UK level, energy responsibilities are split between UK and Scottish Governments, and responsibility for water is fully devolved. Our task is to improve outcomes for consumers in Scotland in these sectors, and we work with partners, in particular our colleagues in Citizens Advice (England and Wales) and also the Consumer Council for Northern Ireland, to achieve this.

### Developing this Work Plan

We developed our initial ideas for this work plan in the autumn of 2016. After inviting stakeholders to feed in at this stage, we developed more detailed proposals and published our draft work plan for formal consultation in early February 2017.

We were pleased to receive 30 written responses to the draft plan. Further, many of our stakeholders also took up our offer to meet during the consultation period. The great majority of responses were positive and included offers of partnership working and suggestions for project refinements. Where appropriate we have refocused our proposals in response to the feedback received.

Of particular note was the level of support received for our proposed research on registration of vulnerable consumers. These comments, and expressions of interest in contributing to the project, have been especially valuable.

Finally, the possible impact of Brexit on consumer protection was highlighted in discussions during the consultation. We consider that it is as yet too early for the CFU to carry out substantive work in this area, but will monitor developments and keep this under review.

This was the first time the Consumer Futures Unit has produced its own work plan, rather than a joint one with Citizens Advice (England and Wales). We are grateful to stakeholders for their feedback on the format and detail level of our draft work plan, and the consultation process itself. We have already taken on board many of these comments in producing this final version of our 17-18 work plan, and we will use lessons from this process in the development of future work plans.

We are confident that this final plan focuses on the key issues for energy, post and water consumers in Scotland. We will now move to deliver the outcomes both we and our stakeholders seek.

Sam Ghibaldan

Consumer Futures Unit Manager

ENERGY	
KEY THEMES	<ul style="list-style-type: none"> <li>• Consumer experience of retail energy markets</li> </ul>
	<ul style="list-style-type: none"> <li>• Energy efficiency and fuel poverty</li> </ul>
	<ul style="list-style-type: none"> <li>• Networks, low carbon technologies and consumer benefits</li> </ul>

## Introduction

The key driver for our work is to ensure that all consumers are able to heat their homes and power appliances at an affordable cost, using energy that is delivered to them by organisations that operate in a fair and reliable way.

Overall, the most recent fuel poverty figures for Scotland show a welcome falling trend in consumers struggling to pay their energy bills<sup>1</sup>. However, the absolute numbers remain high, at 30.7% of households, emphasising the need for considerably more effort. Recent price rise announcements by suppliers serving the majority of consumers in Scotland also highlight the need for further work.

This means that we have to consider issues around retail services, access to energy efficiency services, and underlying cost drivers. Our themes reflect these issues. In line with our wider approach, we recognise that work is needed to ensure policies and services are appropriate for consumers in all circumstances, not just those for whom standard approaches are appropriate.

## Consumer experience of retail energy markets

Energy prices are a central concern for consumers, with energy typically being the single largest household cost after mortgage or rent payment. Mains gas and electricity prices have remained stable from early 2014 until early 2017, a welcome change from the decade of rising prices which characterised the market from 2004 to 2013<sup>2</sup>. However, the Competition and Markets Authority Investigation<sup>3</sup> into the energy market, published in June 2016, showed significant variations between the prices paid by the majority of consumers on standard variable tariffs and those on the cheapest tariffs. The investigation also highlighted the higher costs faced by those using pre-payment meters and those on some less common plans, such as time of use tariffs, designed for electric storage heating.

Pricing concerns are again becoming more significant, as the majority of the big six and some smaller energy suppliers have announced price rises during the first quarter of 2017. Implementation of CMA recommendations will be a central aspect of work for all involved in the energy sector in coming months.

1 Scottish House Condition Survey 2015, <http://www.gov.scot/Topics/Statistics/SHCS>

2 <https://www.gov.uk/government/collections/quarterly-energy-prices>

3 <https://www.gov.uk/cma-cases/energy-market-investigation>

A key part of our ongoing work this year, alongside Citizens Advice (England and Wales), will be working to ensure that the measures that are implemented achieve the desired consumer outcomes in Scotland as well as other GB nations. One area where Scottish circumstances are different is in relation to electric storage heating, and this is reflected in our project focusing on that issue, below.

### **Energy efficiency and fuel poverty**

In relation to energy efficiency, the most recent figures for Scotland<sup>4</sup> reinforce past trends. There has been significant progress in delivery of lower cost measures including loft and cavity wall insulation and new boilers. These have driven improvements in the energy efficiency of Scottish housing as a whole. However, challenges remain for a significant minority of households. This is either because new approaches to engagement are needed (such as for those in the private rented sector), or because the houses themselves need different or more expensive technical solutions (such as solid wall insulation or heating systems for homes without access to mains gas).

Work in this area is largely devolved and led by the public sector. We expect that most of our ongoing work this year will be through providing input as the Scottish Government develops next generation energy efficiency schemes.

More widely, the CFU was a member of two Scottish Government working groups in 16-17: the Strategic Fuel Poverty Working Group<sup>5</sup> and the Rural Fuel Poverty Task Force<sup>6</sup>. The reports of both groups were published in the autumn of 2016. They recognise that future approaches must go beyond the established work on energy efficiency and income maximisation to include a more active approach on retail issues, as well as consideration of consumer behaviours.

### **Networks, low carbon technologies and consumer benefits**

Policy in relation to networks and energy generation is reserved to the UK Government. While both Governments are focused on the need to decarbonise electricity generation and ensure security of supply at affordable costs, the UK Government is addressing this in part through new nuclear capacity, whereas the Scottish Government places more emphasis on renewables. The Scottish Government's draft Climate Change Plan also emphasises the need for an increase in electricity supply to allow the transition to lower carbon heat and greater take up of electric vehicles.

Combined with the Governments' distinct approaches to energy efficiency and addressing fuel poverty, the policy context in which energy network companies in Scotland operate increasingly differs from those in England and Wales. We will work with industry, Citizens Advice (England and Wales) and Ofgem to explore the implications of changes for consumers, and identify any further changes needed.

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<sup>4</sup> <http://www.gov.scot/Topics/Statistics/SHCS>

<sup>5</sup> <http://www.gov.scot/Publications/2016/10/2273>

<sup>6</sup> <http://www.gov.scot/Publications/2016/10/2017>

### **Cross-sector projects, wider work and energy**

Wider energy policy concerns are also reflected in our proposed cross-sector projects in relation to consumers and climate change and our study on cross-industry support for vulnerable consumers. Finally, in line with stakeholder expectations, we will seek to improve our evidence base, so that we are better able to identify ways in which circumstances in Scotland are different from other GB nations and therefore require bespoke approaches to deliver outcomes. As part of this aim, we will also work more closely with colleagues within Citizens Advice Scotland whose work concentrates on supporting front line advisers.

## E1: Understanding and improving the experience of consumers using electric storage heating

### The Issue

Over 284,000 (12%) households in Scotland depend on electric storage heating to heat their homes. High unit costs and, often, low household incomes means that 54% of this group are in fuel poverty. This is a far higher proportion than in any other group of households using a particular heating fuel type in Scotland. Problems encountered by these consumers and reported by front line advisers can include some or all of:

- Using or switching between time of use tariffs, which can be expensive and difficult to compare between suppliers.
- Physical barriers to switching, which may in some cases require electrical works or meter changes.
- A need for support in using heating system controls.
- A need for replacement of older, less efficient storage heaters.

A particular issue with electric heating is that an integrated solution may be needed – for example, renewing the heating system may in turn result in a need for advice on using controls, or mean that an alternative tariff is more appropriate.

### What we have done so far

As part of the GB-wide Citizens Advice Service, we highlighted our concerns during the CMA energy market investigation. We were pleased that the CMA took on board some of our recommendations to ensure consumers using restricted meters have a greater opportunity to switch supplier. Ofgem research shows that these meters are much more common in Scotland than other GB countries. We have also identified a wide range of partners with a strong interest in this area.

### What we will do

The remedy proposed by the CMA will widen the choice available to consumers. However, we are concerned that, given the complexity of the issue, additional support will be needed to enable some consumers to take advantage of the new opportunity.

We will:

- Undertake research with local delivery projects already working with consumers using electric storage heating to better understand the starting points, activities and results of different interventions, and how those could be improved.
- Highlight the need for monitoring and evaluation approaches across all programmes to demonstrate evidence on their effectiveness in eliminating fuel poverty.

- Link this to wider work on smart meters, understanding and improving aspects of the smart meter transition as it applies to electric storage heating consumers.

Given the range of issues involved in providing integrated solutions, and the high level of stakeholder interest expressed during the consultation, we intend to establish a steering group, including stakeholders, to oversee the work.

### **What we aim to achieve**

We will publish a report describing in detail:

- The particular needs of electric storage heating consumers.
- Current availability of services which meet those needs.
- And what more needs to be done to fill any gaps.

The research will also identify appropriate actions to improve outcomes for consumers using electric storage heating, targeted at government and industry. We will promote the results through a stakeholder event, as well as taking forward recommendations with appropriate organisations directly.

## E2: Heating oil clubs in rural and remote areas

The Scottish Government's Rural Fuel Poverty Task Force, of which we were a member, identified a wide range of measures needed to provide affordable energy in areas without access to mains gas. One persistent concern has been the higher cost of heating oil in remote areas. Higher prices of 4-6p extra per litre (10-15%) are common for the 29% of households who depend on heating oil in the Highland Council area, compared to prices in central Scotland. Even higher premiums have been reported on the islands.

A further issue is that heating oil prices are very volatile. Prices have fallen by over 50% since their peak in early 2013, but have begun to rise again<sup>7</sup>. It is not clear whether consumers' views of the benefits of participation in oil clubs may have changed as a result.

The Task Force report suggests that heating oil clubs should be considered as a means of providing consumers with access to lower priced fuels through collective purchasing.

### **What we have done so far**

Our previous research has identified that, while heating oil satisfaction is generally high, price and lack of choice of payment methods are concerns, particularly for lower income groups. However, more work is needed to identify what level of savings may be possible in remote and rural Scotland, or whether oil clubs might provide an incentive for new suppliers to enter the market and help reduce prices.

### **What we will do**

We will:

- Commission a small number of local-based organisations, already active in providing energy advice in rural and remote communities, to test whether heating oil clubs can provide sufficient benefits to engage consumers and suppliers.

### **What we aim to achieve**

We will publish a report describing the results of pilot work, including demand for and benefits of heating oil clubs, and we will hold a stakeholder event to publicise the results. Our aim is that any future work by stakeholders in this area takes account of our evidence of the current experience.

<sup>7</sup> <https://www.boilerjuice.com/heating-oil-prices-scotland/>

### **E3: Consumer views of the definition of fuel poverty**

#### **The Issue**

Fuel poverty currently affects 30.7% of households across Scotland. While considerable progress has been made in improving the energy efficiency of homes to reduce their energy needs, price rises have meant household bills have not fallen to the same extent. The Scottish Government convened the Strategic Fuel Poverty Working Group to consider how best to move forward. One recommendation of the group was that the definition of fuel poverty should be revisited to ensure it reflects households' experience.

The Scottish Government has accepted this recommendation and has recently commissioned a group of academics to consider the issue. In addition, the Scottish Government has indicated a longer term intention to ensure that future Government support is targeted towards those in greatest need.

#### **What we have done so far**

We represented the consumer interest on the Strategic Fuel Poverty Working Group. While we agree with the need to focus support on those in greatest need, we believe that any change in definition should be informed by the views of consumers so that it reflects the reality of their experience.

#### **What we will do**

To help inform our contribution to the debate, we will:

- Commission research to better understand consumers' views of fuel poverty support, and what should be prioritised in relation to this.
- Reflecting consultation feedback, we will seek the views of other members of the Scottish Fuel Poverty Forum, and of the Scottish Government, in identifying the detailed issues to be explored before we commission this work.

#### **What we want to achieve**

Our aim is that grounding the new fuel poverty definition in consumers' experience will ensure it is an effective tool for targeting support at those in need. We will use the outcomes of our research to inform government, stakeholders and public debate.

## E4: Exploring the role of DNOs in Scotland in supporting energy consumers

### The Issue

Network operating companies own and manage the wires and pipes which deliver electricity and gas to consumers in Scotland. The roles of these companies have been changing in recent years in two ways.

First, the energy regulator Ofgem has placed more emphasis on network companies' social outcomes. This includes their contributions to addressing fuel poverty, approaches to which increasingly differ between Scotland and other GB nations.

Second, actions to address climate change imply significant increases in electricity generation to power both electric vehicles and renewable heating. Greater investment in parts of the electricity grid in particular may be needed to facilitate these measures. This issue is also likely to affect consumers in Scotland to a greater extent than elsewhere.

### What we have done so far

While we have represented energy consumers on a number of industry groups, we have not previously looked in detail at the role of network companies.

### What we will do

We will:

- Work with Citizens Advice (England and Wales) and Ofgem to learn more about the ways in which network companies there currently work, and the possibility for any successes to be replicated in Scotland.
- Work with industry and stakeholders in Scotland – some of whom have expressed interest in taking part in this research – to clarify how network companies can most effectively add value to wider work on reducing fuel poverty.
- Work with Ofgem and others to identify ways to better reflect consumer concerns during development of Ofgem's new regulatory framework for network companies.

### What we want to achieve

Stakeholder responses suggest that there is already agreement on the aim for network companies to maximise benefits to energy consumers in Scotland while avoiding duplication of effort and controlling costs. Our research aims to add greater detail around the role of network companies in relation to consumer support for addressing fuel poverty, and enabling take up of low carbon technologies in ways that reflect Scottish circumstances. We will publish a research report with targeted recommendations, which we shall publicise and promote through a stakeholder event.

POST	
KEY THEMES	• Letters
	• Parcels
	• Access to postal services

## Introduction

Products in the postal market fall into two main categories, letters and parcels. Consumers can send or receive these through a network of post office branches and parcel shops. Letters, parcels and this access network make up the three main areas of our work. Each area is characterised by different trends and consumer issues.

### Letters

Although letter volumes continue to decline, our research shows that the universal postal service remains important to most people – in sending and receiving official documents, for example – and is an essential part of life for some consumers. The sector is dominated by the universal service provider Royal Mail, and is regulated by Ofcom.

We work with the other UK consumer bodies (the Consumer Council in Northern Ireland, and Citizens Advice (England and Wales) to represent the interests of consumers in the regulated market, through engagement with Royal Mail and Ofcom. We are involved in discussions about the issue of scam mail, for example, and will continue to support Royal Mail in its current work to address the problem. In addition, we sit on the Post Office Advisory Group, which provides a key opportunity to ensure the voice of Scottish consumers is represented across the sector. Our ongoing monitoring work, as well as new research, allows us to represent their views effectively.

We intend to undertake one new project in this area, looking at the views of SMEs in Scotland, an area where our research shows detailed data is currently lacking.

### Parcels

In contrast, the parcels market is highly competitive and continues to expand significantly, with the growing importance of online shopping making parcel delivery an important part of consumers' lives. However, physical delivery of internet retail purchases is not always straightforward, and the geography of rural Scotland and the Highlands and Islands has a significant impact on both costs and choices for consumers.

We have carried out a growing body of research on this issue over previous years. We now intend to build on the information we have gathered and the contacts we have made, to move towards consideration and delivery of solutions. Our work in this area this year will bring together stakeholders across the public and private sectors to explore innovative solutions, with the aim of delivering wider choices for consumers in remote and rural areas.

## **Access to Postal Services**

The Post Office network and a growing number of parcel shops give consumers access to postal services. The way access is provided continues to change, with new Post Office operating models being rolled out across the UK and with continuing pressure on traditional models of service provision, particularly in rural and remote areas.

In these locations, Post Office Outreach services are a key part of service provision. We will build on our research on consumer views of these services to develop an evaluation framework and work to ensure its adoption. We will also, as part of our ongoing work, examine the related issue of Post Office temporary closures, if time permits.

## P1: Understanding the postal service needs of SMEs in Scotland

### The Issue

The postal industry is often a vital route by which small businesses access markets, obtain materials and equipment and deliver products. Over 80% of letters are sent by businesses<sup>8</sup>.

### What we have done so far

The need for this work was identified, but not examined in detail, by research in 2016 which, while focused on all postal service consumers, included a small number of interviews with rural SMEs as well as households.

The results showed that the priorities for SMEs can be very different to those of individuals. For example, we heard from businesses whose viability relies on particular universal service products offered by Royal Mail, and from others who went out of business partly as a result of parcel delivery surcharges. This evidence is anecdotal, but does confirm the need for research to understand the nature and depth of potential detriment to SMEs. No other surveys of SMEs in Scotland cover these issues in detail.

### What we will do

We will:

- Commission quantitative research which will cover all of Scotland, boosting the sample as necessary to ensure robust findings for SMEs in rural areas.
- Examine the extent to which postal services are accessible to SMEs, and present them with meaningful choice. Among other stakeholders, the Federation of Small Businesses has highlighted the need for this work.

### What we aim to achieve

We anticipate that the research report will:

- Identify areas where Royal Mail, Post Office Limited and other companies can improve their offering to SMEs.
- Inform our ongoing work across the postal industry, delivering better outcomes for Scotland's small business consumers.

<sup>8</sup> <https://www.boilerjuice.com/heating-oil-prices-scotland/>

## **P2: Improving access and choice for consumers affected by delivery surcharging**

### **The Issue**

Affordable parcel delivery is becoming more important to consumers as the online retail sector continues to take up a greater proportion of the retail market. Achieving more affordable parcel delivery has the potential to contribute to the sustainability of rural communities, and their opportunities for economic growth.

We know from previous work, and the experience of stakeholders such as Trading Standards, that parcel delivery surcharging in some parts of Scotland is a persistent consumer issue. As well as the cost, the definitions used by parcel operators to define surcharged areas can be frustrating for consumers, often grouped under an ambiguous 'Highlands & Islands' area, which can affect consumers in larger mainland settlements, by some definitions including cities like Aberdeen, as well as remote island communities. While population density is lower in Northern Scotland than the UK average, other mainland UK areas in Cornwall or rural Wales with similar population distributions do not face these costs.

### **What we have done so far**

Our research into rural parcel delivery surcharging took place in 2016-17 and was designed to provide the evidence base for cooperative work involving the private and public sectors, looking at innovative solutions to the problem. Through the publication of this recently completed research, we will shortly present our findings on:

- The relative prevalence of parcel delivery surcharges to rural areas of the UK.
- The different ways consumers in surcharged areas respond to parcel delivery surcharges and restrictions.
- The opinions of parcel delivery operators on the causes of and potential solutions to the problem.

The research has also identified interest among stakeholders in identification and implementation of solutions, and this will be the focus of our work in 2017-18.

### **What we will do**

We will:

- Use the research results to develop policy recommendations and advocate for their adoption by relevant stakeholders, building on the relationships established in recent research.
- Facilitate cooperation within the parcels industry and between operators and relevant public and third sector bodies to develop and test solutions. The emphasis could be either on innovation within the industry, or in terms of the way consumers interact with the market, or both.

**What we aim to achieve**

Whether or not it is possible to remove regional service variation from the parcels market entirely, our aim is that it functions in the best practicable way for Scottish consumers. We will work towards the following outcomes:

- The establishment of a parcel delivery forum where industry and relevant stakeholders can agree and take forward actions to reduce surcharging.
- A commitment from industry to continue working to reduce surcharging where practicable.
- Commitments from government and/or enterprise bodies to support pilot projects to test new innovations that may reduce the need for surcharging.
- An evaluation of current consumer protection in the parcels market, in partnership with the other consumer bodies and the regulator, and whether there is a need for it to be improved.
- Producing advice for consumers on how to avoid excessive surcharging in areas affected, including use of the universal service where appropriate. We will work with the Consumer Council in Northern Ireland on this to make efficient use of resources and remove duplication of effort.

The Scottish Government is planning to establish a Consumer and Competition Taskforce to identify and tackle issues faced by consumers. We will explore the potential to work with the Taskforce in taking this forward.

### **P3: Developing an evaluation framework for post office outreach services**

#### **The Issue**

Access to postal services is a critical consumer issue. There are particular commercial pressures on post offices in remote areas, and the availability of new services – such as parcel shops and lockers – in rural areas varies considerably. If services are not available or are not sustainable, this poses a serious threat to access and choice for consumers in those areas without alternatives.

The current evaluation process for Outreach services – services which provide access to postal services in the absence of a permanent, traditional post office - is the same for all branches, and is set out as the UK Government access criteria. The existence of Outreach services recognises the unique circumstances of rural circumstances. The existing criteria do not.

#### **What we have done so far**

The CFU submitted a response to the recent government consultation on the future of the network, which outlines some of our further thoughts on the current access criteria's limitations. Among other recommendations, we suggested exploring an expansion of criteria to include minimum hours and frequency of service criteria, as well as a minimum product range, physical accessibility and privacy level.

In 2016-17, we also commissioned deliberative qualitative research involving people living in areas served by Post Office Outreach services to gather evidence of what these consumers value most<sup>9</sup>, and their priorities for the future. We will publish the findings of this research in 2017-18.

#### **What we will do**

We are the only body in Scotland with a legal duty to monitor the number and location of post office branches, and assess service standards and availability for consumers. We will:

- Develop a service evaluation framework that the consumer bodies and, ultimately, Post Office Ltd (POL) can use to ensure that Outreach services meet the needs of the consumers they serve.
- As far as resources allow, involve rural communities in Scotland in the design of the framework.

#### **What we aim to achieve**

Once the evaluation framework is complete, our aims are:

- The adoption of the evaluation framework by consumer bodies (CAS, Citizens Advice England and Wales, and the Consumer Council for Northern Ireland) to regularly and systematically

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<sup>9</sup> This research was part of a wider, cross-sector project.

evaluate the lifeline service being provided to more isolated consumers.

- The eventual adoption of this framework, in whole or at least in part, by POL as part of their business as usual processes.
- The use of this framework to identify both best practice and circumstances where postmasters may need additional support.

WATER	
KEY THEMES	<ul style="list-style-type: none"> <li>• Paying for water</li> </ul>
	<ul style="list-style-type: none"> <li>• Resilient consumers and communities</li> </ul>
	<ul style="list-style-type: none"> <li>• Non-domestic water consumers</li> </ul>

## Introduction

There is a significant difference in the market structure between water and the other sectors in which we work, as Scottish Water is a publicly owned company. It is also the monopoly supplier for domestic consumers, from whom payment for water and sewerage services is collected by local authorities through Council Tax bills. This means that many consumers have low awareness of the amount they pay for water and sewerage. A further difference is that charges are fixed by Council Tax band across all local authorities in Scotland, regardless of consumption or geography.

In the non-domestic sector, arrangements are more similar to England and Wales. Water and sewerage provision has been a competitive market in Scotland since April 2008.

Positively, service standards are generally very high in the sector. However, a small proportion of domestic consumers experience problems with their water and sewerage supplies. These problems are particularly concentrated in rural and remote areas, and addressing them could in some cases require significant investment.

The themes of our work in the water sector are informed by this context.

## Paying for Water

The charges Scottish Water can make from consumers are ultimately determined by the regulator, the Water Industry Commission for Scotland (WICS) under guidance from Scottish Ministers. The approach to charging and the services provided is set some years in advance. The next Scottish Water business plan period will run from 2021-27, and discussions will shortly begin which will inform that plan.

A key focus for our work this year will therefore be contributing a consumer perspective to inform Scottish Ministers' high-level guidance. Specifically, we will feed into the formal processes as updated Principles of Charging and Ministerial Objectives are developed.

After these high-level approaches are agreed, the industry regulator WICS, taking account of Ministers' decisions, will provide ranges of costs and services to be delivered, within which relevant aspects of Scottish Water's business plan should sit.

Together with Scottish Water and WICS, the CFU will jointly establish and support a new Customer Forum – included as a new project in this plan, but expected to become part of our ongoing work in future. Over the next three years, the Forum will operate as a challenge group, negotiating with Scottish Water over the detailed costs and services in their business plan for 2021-27. WICS will then take the final decision on the plan. Our aim in supporting the Forum is that the consumer voice is built in to negotiations from the start.

More immediately, we will work on one specific payment issue this year, around water debt. Depending on the benefits they receive, consumers can be eligible for 100% Council Tax relief. However, the collection of water and sewerage bills alongside Council Tax means that consumers frequently, but incorrectly, assume that exemption from Council Tax means they are also exempt from paying for water, leading to longer-term issues of debt. We will look in detail at possible solutions to this problem.

### **Resilient consumers and communities**

We continue to work on issues affecting water consumers now. As noted above, the main challenge relates to the provision of water and sewerage standards in the context of private water supplies, particularly in rural areas.

We will explore the range of guidance available to affected consumers.

### **Non-domestic consumers**

We will continue to monitor the development of market reform in England which will open in April 2017. In particular, we will work with water industry partners to appropriately respond to any impact it may have on consumers in the non-domestic water market in Scotland.

Our stakeholders have highlighted changes in the non-domestic market – the bundling of services and the growing role of Third Party Intermediaries - which may impact directly on SMEs getting the best deal in the short term, and undermine trust in the longer term. We will explore these issues this year.

## W1: Establishing and supporting a new Customer Forum

### The Issue

The next Scottish Water business plan period will run from 2021-27, and discussions will shortly begin which will inform its development. The plan will determine both the detail of prices paid by consumers and the levels of service provided by Scottish Water.

The Water Industry Commission for Scotland (WICS) has a remit to ensure that Scottish Water is adequately funded. WICS does this by setting ranges for charges for water and sewerage services in Scotland based on the lowest reasonable overall cost within a wider context of the need for recovery of the full costs of delivery.

We are working with Scottish Water and WICS to ensure that consumers are central to the business planning process. The three organisations will establish a new Customer Forum that, over the next three years, will seek to reach an agreement with Scottish Water over the detail of both prices and services set out in their business plan. WICS will then take a decision upon the plan. A strong consumer voice in the Forum is essential to ensure the plan reflects consumers' views.

### What we have done so far

To help inform the work of the Forum, we have conducted deliberative consumer research into two key policy areas for the water industry; first, how consumers relate to water and its environment, and second, the delivery of similar service standards within urban and rural areas. Research also explored consumer attitudes to current costs and priorities for spending in relation to these areas.

Outputs from this research form the basis of a strong consumer input into the forthcoming strategic policy setting process in terms of consumer priorities.

### What we will do

Working with partners, we will establish the Customer Forum early in 2017-28. We will then use evidence of consumer priorities alongside consumer principles to inform our input to its work. Specifically, we will encourage the Forum to consider:

- The level of charges, and any changes in the level of charges.
- Why improvements are necessary.
- How bills will change in the future.
- The mechanisms and decision-making processes through which consumers can influence how and when improvements are made.

**What we aim to achieve**

Our overall aim is to ensure that Scottish Water's future plans include the consumer perspective from the start of their development.

## W2: Targeting support for consumers in debt to Scottish Water

### **The Issue**

Consumers exempt from Council Tax charges are not exempt from water and sewerage bills. Low awareness of this fact and subsequent water debt is a significant issue for a small number of vulnerable consumers.

### **What we have done so far**

In 2016, the CFU commissioned research into recent trends in water and sewerage debt. The report found that affordability remains a problem for low-income consumers; there is a particular concern about those on benefits who qualify for 100% Council Tax Reduction, as these consumers often incorrectly assume that they are also exempt from paying water bills. Some of these consumers then build up debts.

We have been working as part of the Scottish Government's Long Term Charging Group, which is responsible for assessing charging arrangements, including debt recovery, in the water sector in Scotland. The group considered the report findings, and recognised that further research is necessary to better understand how best to address this position.

### **What we will do**

We will:

- Commission new research, taking account of the views of other members of the Long Term Charging Group, to better understand where targeted support is required among those in receipt of full Council Tax Reduction.

### **What we aim to achieve**

We want to clarify understanding of patterns of water debt and who it affects. Working through the Long Term Charging Group, we then want to see targeted solutions applied to the most affected groups of consumers, and future trends monitored.

### **W3: Resilient rural consumers and communities: wider benefits of an appropriate support framework for rural areas**

#### **The Issue**

There are currently over 20,000 private water supplies in Scotland providing water to over 180,000 people, the great majority of whom are in rural and remote areas. We want to ensure that these consumers have access both to safe drinking water and to the support they need to manage private water supplies and private sewerage services in compliance with legal requirements.

#### **What we have done so far**

We have, with stakeholders, considered issues around the future of rural provision of water and sewerage services. We recognise that delivery of sustainable, long-term solutions in this area could potentially require significant capital investment. In addition, improving private water and wastewater services could have significant impacts on communities who may not have the financial capacity, knowledge or support to proceed.

In 2016 the CFU commissioned research on the availability and accessibility of information for users and managers of private water supplies as part of our membership of the Scottish Government's Rural Provision Working Group.

#### **What we will do**

We will take forward the recommendations of our earlier work and, with appropriate industry partners, we will conduct further research into:

- What additional support is needed by communities using private water supplies to improve water quality and how this could be provided, including from local authorities.
- How information should be made available to consumers on these issues.

#### **What we aim to achieve**

We want to improve understanding across the industry on the type and depth of support needed for consumers or communities using private water supplies to make informed and appropriate choices to improve their water quality. We will then work with industry partners to implement recommendations.

## W4: Understanding and protecting consumer trust in the non-domestic market

### The Issue

As a result of changes in the UK non-domestic water market, models of service provision in Scotland are likely to become more complex in two ways.

- First, the introduction of 'bundling' of gas, electricity, water and other utilities from one supplier may make identification and delivery of specific problems in one sector more difficult.
- Second, concerns have been raised about the use of third party intermediaries (TPIs) in the water sector.

In both cases, there are risks of immediate impacts on individual businesses; we are particularly concerned about potential impacts on SMEs and sole traders who can often lack the same bargaining power and resources as larger organisations.

There are also risks of long-term detriment, should poor practices undermine trust in the water industry as a whole.

### What we have done so far

We held a non-domestic water consumer event in 2015, at which both licensed providers and non-domestic water industry regulators recognised the need for a non-domestic Code of Practice to protect customers' interests. We helped convene a working group. The group has produced a draft Code of Practice that sets standards of behaviour for licensed providers to deliver better outcomes for customers from the non-domestic market.

However, TPIs do not currently have to meet these standards, as they fall outwith the remit of water regulators.

### What we will do

We will:

- Conduct research with SMEs to better understand their experiences and impacts on trust in the non-domestic water market in Scotland. The need for this project was identified by stakeholders across the water industry, all of whom recognise the need to safeguard current high levels of trust in the sector.

### What we aim to achieve

Our aim is, as with the development of the Code of Practice, to identify issues and responses needed as they emerge. Given the wide stakeholder interest in this project, we are confident that measures identified by the research will be implemented.

CROSS-SECTOR	
KEY THEMES	<ul style="list-style-type: none"> <li>• Consumers and responses to climate change</li> </ul>
	<ul style="list-style-type: none"> <li>• Cross-sector registration of vulnerable consumers</li> </ul>
	<ul style="list-style-type: none"> <li>• Consumer tracking survey</li> </ul>

## Introduction

The aim of work we undertake in individual regulated markets is to ensure that the consumers who use those services are central to regulation and policy. An additional outcome is the opportunity this provides to look across individual markets and learn lessons from practices – both good and bad – which can be applied within other markets.

We will publish our main cross-sector work from 2016-17, which looked at:

- The application of consumer principles within the regulated industries.
- The use of deliberative research as a tool in areas where consumer views on complex issues are needed.

For 2017-18 we have identified three new areas of cross-sector interest for 2017-18: consumers and climate change, registration of vulnerable consumers, and a cross-sector consumer tracker survey.

## CS1: Consumers Behaviours and Climate Change

### The Issue

It is outside our remit to comment on the need for, or scale of, climate change emission reductions, but the ways in which reductions are achieved can have significant impacts on consumers. Feedback from stakeholders confirms our view that, while climate change issues are becoming increasingly relevant across a wide range of industries which serve consumers, the issues are most obvious to consumers in the energy sector.

In that sector, the need to reduce emissions has driven programmes which aim to lower emissions, either through adoption of low carbon technologies, or through delivery of energy efficiency measures. All of these require action on the part of consumers. Physical measures have also been accompanied by advice on energy efficient behaviours.

### What we have done so far

In early 2017, the Scottish Government published, for consultation, its updated proposals on reducing climate change emissions<sup>10</sup>. We had intended to base our cross-sector work on the plan. However, Scottish Parliament Committee scrutiny of the Scottish Government's draft Climate Change plan identified the main concerns as:

- First, relating to the balance of emphasis between sectors, with Committee feedback suggesting that the transport and agriculture sectors should do more to reduce emissions.
- Second, suggesting that more emphasis should be placed on consumer behaviour change.

While we consider that there is a consumer interest in the balance of emphasis made between sectors, the first concern identified above is at the margins of our remit and therefore we do not propose to work in that area. However, consumer behaviour change, in the context of the regulated sectors, is within our remit.

### What we will do

In this year we will:

- Review what has been done in relation to behaviour change in the energy sector, including progress to date and likely future changes.
- Monitor the development of climate change policy and future impacts on consumers in the energy, post and water sectors.
- Within the context of the work above, seek opportunities to work with partners whose sectoral remits can complement our own to carry out deliberative work on consumers' attitudes to behavioural change.

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<sup>10</sup> [www.gov.scot/Topics/Environment/climatechange](http://www.gov.scot/Topics/Environment/climatechange)

## **What we aim to achieve**

The results from this work will be:

- A report reviewing the outcomes of previous behaviour change interventions in relation to energy use and climate change.
- If we can find suitable partners, contributing consumer insights to the development of successful consumer behaviour change policies in the context of the Scottish Government's Climate Change Plan.

## CS2: Making registration simpler across sectors for consumers in vulnerable situations

### The Issue

Many consumers can be vulnerable at different stages in their lives, and can benefit from extra help available. Work by the UK Regulators Network shows both the range, but also the complexity, of support services which are available to eligible groups of consumers in different sectors<sup>11</sup>. There is some evidence that the numbers registered (for example, for the Priority Services Register in the energy sector) are relatively limited compared with numbers potentially eligible.

This suggests that some consumers are missing out on services which could benefit them. As industries register consumers individually, it is also likely that some consumers may be confused or put off by multiple, similar registration campaigns, and that resources may be going towards registration which might otherwise be used to improve service delivery. There is therefore a case for investigating ways to increase the number of consumers registering for support.

At the same time, we appreciate the need to maintain consumers' rights to privacy and protection of their personal data – particularly important for consumers in vulnerable situations.

### What we have done so far

The CFU takes a strong interest in access by consumers in vulnerable situations to extra support. However, we currently carry out this work in individual sectors, and have concentrated more on the services to be delivered than the registration process.

### What we will do

We will first discuss the current position in more detail with stakeholders, many of whom expressed interest in learning more about this project, and we will host a seminar to bring together different sectors. We then intend to commission a scoping study, with the aims of:

- Reviewing the number of registers of vulnerable consumers held by different industries in Scotland and how they collect and use the information.
- Seeking to understand the perspective of vulnerable consumers on the availability of existing support, and the balance between their right to control personal data compared with perceived benefits of different levels of sharing it.
- Depending on the results of the above, facilitate discussion on the desirability and practicality of developing a registration system which allows a single registration to be used across all sectors.

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<sup>11</sup> <http://www.esan.org.uk/ukrn-launches-leaflet-for-vulnerable-consumers-seeking-support-service/>

- Look at the potential for interaction between utilities and the public sector, including the NHS, for example.
- Royal Mail manages individual 'walk logs' for every delivery route it serves. The walk logs include useful information for delivery workers like the presence of dangerous dogs or unusual delivery requirements at a particular address. The CFU would like to work with Royal Mail to explore the possibility of using walk logs to record whether consumers who may be vulnerable to scam mail are resident at a particular address, and whether this information can complement that collected by other registers of vulnerable consumers.
- Explore the potential role of Royal Mail staff and the post office network, particularly in rural areas, in promoting registration as a trusted source of information. Post Offices already handle utility billing for some consumers, have a close commercial relationship with Royal Mail, and are used more often by vulnerable consumers, leaving them well placed to act as a conduit to consumers.

### **What we aim to achieve**

The output of this research will be a clearer understanding of the value of, and potential to deliver, a more integrated service for consumers in vulnerable situations. Our intended outcome is that registration for consumers is easier and more effective, and that detailed mechanisms to achieve this area are identified, alongside stakeholder views of their practicality.

The Scottish Government is planning to establish a Consumer and Competition Taskforce to identify and tackle issues faced by consumers. Given the range of companies and public bodies potentially relevant to this work, it may be appropriate to work with the Taskforce to take this forward once the CFU has carried out the initial research.

## CS3: Consumer tracking survey

### The Issue

Reliable information on consumer experience and attitudes is critical to inform policy work. While a great deal of quantitative data on different aspects of the sectors in which we work is already gathered and published by a range of organisations, the overall effectiveness of survey information can be limited by lack of comparability over time as a result of different questions or methodologies being used.

Further, it has become increasingly clear over the last year that many of the issues on which we work, across all sectors, affect consumers in rural areas to a greater extent. Standard sampling techniques mean that the numbers of consumers in rural and remote areas included are too limited to draw detailed conclusions about their experiences and views of areas on which we work.

### What we have done

In 2016-17 we commissioned a survey of Scottish consumer attitudes to energy, post and water issues to help establish a baseline from which to track changes over time, helping to measure the impact of changes and improvements in policy and practice. We concentrated on subject areas or demographics not covered by other surveys – in particular, we sought to complement the GB-wide energy tracker study carried out by Citizens Advice, and Ofcom's residential postal tracker.

### What we will do

We will:

- Commission an annual survey of consumer experience and attitudes in Scotland in the energy, post and water sectors.
- Boost the survey sample for rural, remote and islands, so that we are able to draw robust conclusions on the consumer experience of issues ranging from failure of water or power supplies to ongoing experience of off gas grid heating costs or parcel delivery.

When considering the specific issues to be included, we will seek to complement rather than duplicate other work.

### What we aim to achieve

We will publish and use the results of the tracking survey to record changes in the consumer experience over time. The information will also inform our ongoing policy and advocacy work throughout projects detailed in this plan. The associated outcome will be that our work and that of our stakeholders in the regulated industries are based more clearly on robust evidence.

## Provisional expenditure 2017-18

The provisional budget required to deliver the activity detailed in this work plan is detailed below. It may, of course, need to change during the course of the year should it prove necessary to respond to external developments.

Over the past year we have reviewed the way we work, and we are increasing our focus on advocacy activity. This has implications for the balance between our expenditure on programme and staffing and related costs, as typically advocacy is carried out in-house, and research contracted out.

The CFU's funding comes primarily from levies on the three industries we cover, though there are four budgets as the cross sector budget line derives from both the energy and post sectors. The first table below sets out our costs for the past two years, and the 2017-18 provisional budget, by sector, as this is the clearest way of understanding the funding from the different sources. The second table has the 2017-18 budget by activity line.

<b>CFU Expenditure and Budgets 2015-16 to 2017-18 By Sector</b>			
	Energy Sector	Post Sector	Water Sector
<b>2015-16 Cost</b>			
Programme	198,318	129,781	74,487
Staffing & Related	276,247	123,459	198,943
<b>Total</b>	<b>402,859</b>	<b>253,240</b>	<b>273,430</b>
<b>2016-17 Estimated Cost*</b>			
Programme	142,473	118,797	112,751
Staffing & Related	260,387	126,443	202,859
<b>Total</b>	<b>402,860</b>	<b>245,240</b>	<b>315,610</b>
<b>2017-18 Budget</b>			
Programme	147,598	74,014	78,763
Staffing & Related	287,082	121,906	231,237
<b>Total</b>	<b>434,680</b>	<b>195,920</b>	<b>310,000</b>
<b>% Change 2016-17 to 2017-18</b>	<b>7.9%</b>	<b>-20.1%</b>	<b>-1.8%</b>

*\*These are estimated costs only for 2016-17 since this work plan is being published before final accounts are approved.*

<b>CFU Provisional 2017-18 Budget By Activity</b>			
Sector	Programme	Staffing & Related	2017-18 Total
Energy	120,100	214,900	335,000
Post	67,140	103,860	171,000
Cross Sector	34,372	90,228	124,600
Water	78,763	231,237	310,000
<b>Total</b>	<b>300,375</b>	<b>640,225</b>	<b>940,600</b>

Programme refers to costs associated with our research and advocacy work, whereas staffing and related costs includes items such as salaries, national insurance, pension contributions, and the costs the wider organisation incurs in relation to CFU staff.

The provisional Cross Sector activity budget remains at £124,600, the same figure as the previous two years. As – unlike our counterparts in England and Wales – the CFU also covers the water industry, when considering the cross-sector programme we look at each project on an individual basis and seek to allocate funding in relation to a judgement of the relevant sectoral relevance. This has also led us to propose a proportionate reduction in the post sector contribution to the cross-sector budget this year, given the nature of the cross sector programme.

In 2016-17 overall post sector costs fell by 3.2%, and in 2017-18 we anticipate a significant further reduction of 20.1%. Between 2015-16 and 2017-18 there will be a total reduction of 22.6%. This comes about due to a combination of the proportionate reduction in the post sector contribution to cross sector budget, and the limited research activity in the 2017-18 post programme. Instead, our primary focus this year will be on advocacy work related to research projects we have conducted in 2016-17.

In energy, we propose that overall expenditure increases by 7.9%, reflecting our assessment of the nature of the cross sector programme this year, together with a 2.1% increase in the specific energy activity budget.

The water budget is 13.4% higher than 2015-16, though 1.8% lower than 2016-17. This reflects the fact that 2015-16 costs were not as high as had originally been anticipated, and that we predict a decline in programme costs this year against 2016-17.

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.

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