EXECUTIVE SUMMARY of

Deliberative Research concerning

Consumers' Priorities for PR09

for the Water Industry Stakeholder Steering Group

10/06/08

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I. Executive summary: reflections and key areas

1.1 Reflections on the Deliberation

Background

The research was commissioned by eight stakeholders with interests in the water and sewerage industry[1]. The overall objective was to explore and understand consumers' expectations and priorities in respect of water and sewerage services for the period 2010 to 2015 in particular, but also in the longer term context, for each Water and Sewerage company region and to show how these views are affected by increased knowledge of the issues.

Process

The research was conducted using a three-stage deliberative method. The first stage, of discussion groups, produced a picture of beliefs and attitudes before deliberation reported in full in Section IV. The findings from the second stage, self-guided deliberation in the everyday context, and the third stage, deliberative workshops, produced the views and opinions of an informed audience and are reported in full in Section V and the regional specific data is reported in Section VI.

The Executive Summary, except where specified, reports the opinions of respondents after they had informed themselves on the issues through the deliberative process.

The opinions reported and the verbatim quotations included in this document express the views of the members of the public who took part in the research. They may not represent, nor correspond to, the views of the organizations which commissioned the research. The quotes included are typical and representative of the sample unless specifically stated otherwise.

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[1]Consumer Council for Water (CCWater), Department for Environment, Food and Rural Affairs (Defra), Drinking Water Inspectorate (DWI), Environment Agency (EA), Natural England (NE), Water Services Regulation Authority (Ofwat), Water UK (WUK), and the Welsh Assembly Government (WAG)

Discussion

Most respondents started this process with a fairly simple set of beliefs and attitudes toward and about the water industry. The great majority rarely, if ever, think about their water and sewerage services in the course of their everyday lives. The primary attitude to the services is one of non-reflective trust and reliance. They assume that the drinking water is safe, and the majority are neutral or positive about the taste. Most, but not all, respondents see their water bill as relatively good value compared to other utilities.

There was a great deal of satisfaction with the service provided by the water and sewerage companies. However the simplicity, consistency and reliability of services resulted in praise being very simple. It is worth noting in this context that the water and sewerage services are generally so much taken for granted that spontaneous praise is rare.

> *"In twenty five years I have never had a problem with any services, water or sewage. The quality of the water in my area is very good."*
>
> Nottingham

When water and sewerage services are mentioned the three most common first responses are firstly, comments that the benefits are usually taken for granted, secondly references to leakage in the infrastructure and thirdly condemnatory remarks about water company profits.

Customers' two main priorities were that companies (i) reduce leakage and (ii) ensure that bills are affordable.

However, the activity of deliberation revealed and unleashed an enormously broad range of attitudes to a huge range of problems with many inter-connecting variables. Whilst few changed their initial stance of disapproval of both leakage rates and profit levels almost all began to appreciate the range of issues facing the industry. A few offered thoughtful solutions.

Overall there were no differences of opinion that correlated directly to socio-economic grouping. However those who were living on low-incomes, whether or not in work or retired, tended to consider controlling prices considerably more important than any other issues.

There is clearly widespread, enduring concern about private, profit-making ownership of an essential service.

"A basic utility like a water company should not be a business, unless the customers themselves are the shareholders."

Great Yarmouth

Some saw that the companies were therefore in a difficult situation.

"The water companies have got a real uphill struggle. If they are efficient and well-run companies and they make a profit, they're just going to get knocked. People don't think that water is something that you should make massive profits from."

Bournemouth

It was clear that the impact of water bills on people's views depends largely on disposable income. On the whole even when ABC1 respondents are negative, or worked up about their water bills, they are not inconvenienced. To some low income respondents, in particular working single parents and pensioners on fixed incomes, the threat of increased bills is very worrying indeed. A few felt that the government should offer assistance.

"They give people council tax benefit, why not give people water benefit?"

Yeovil

Many felt that re-nationalisation should be considered, primarily so that money was not 'siphoned off' to shareholders and secondarily because for many it would follow that there would be a single national water rate which would be more equitable.

However the nationalisation advocates rarely addressed future funding requirements. It is not clear how they felt funding should be addressed so we feel this issue would need to be specifically and sensitively explored if it were ever to be considered.

Some felt there could be some contribution to funding requirements by offering customers a greater stake in the companies.

"Why don't they borrow from consumers for future improvements by selling them shares in the company?"

Great Yarmouth

Throughout the sample comparisons were made with the competition between the providers of other utilities. Many respondents felt that they would prefer to have a choice of water and sewerage service providers because they believed that such competition would help to moderate prices.
A good number believed however, that the fundamental driver of the industry was profit.

> *"A lot of these foreign multi-nationals are falling over themselves to buy into the utilities and they are only doing it because there is a profit."*
>
> Bristol

And some felt the result of the deliberation and the price review was a foregone conclusion.

> *"What's the point of having this price review when the perishing thing goes up all the time anyway?"*
>
> Manchester

The great majority of respondents were willing to make changes to address environmental issues provided that companies make similar efforts. They felt however that companies, not customers, should fund infrastructure improvement and profits should be at risk if performance is poor.
As one respondent noted:

> *"At no time during the company's life have they finished the year making a loss."*
>
> St Austell

<u>Wales</u>

Research was conducted in Cardiff and Wrexham, thus covering both Dwr Cymru and Dee Valley Water. Findings were very similar to those in England and overall respondents felt they had reasonable or good value for money.
Some respondents knew that Dwr Cymru, although profit-making, did not have shareholders like English water companies, and a few had noted some shareholder discount on their bills. This form of ownership was, on

the whole, felt to be a good thing. There was some feeling that Wales is being exploited as they believed that Birmingham and other cities in England are supplied with water from Wales but English customers are paying less for it than customers of Welsh Water.

1.2 Key Areas

Social and Economic Context

Throughout the sample there was pronounced pessimism about the state of society, about politicians and institutions, and about the economy. Respondents knew that the cost of staples and utilities had risen considerably. This contributed to their fears of future price rises and the sense that many could not afford to pay more for their water and other utilities without hardship.

Water Supply

In their everyday lives most respondents rarely thought about their water supply. They take its safety, quality and reliability for granted. Most of the problems they experienced directly, such as discolorations and interruptions to supply, are temporary and most respondents are happy with the way such problems are handled. Very few respondents knew how much water they used, nor very much about the water supply system.

Sewerage

People think about sewage and the sewerage system even less than about their water supply, but are equally satisfied. Few respondents have experienced sewer flooding. Although both sewer flooding and the cost of preventing it have both low awareness and a low overall priority, when the problem is explained people are willing to continue to contribute towards preventing it at the same rate as they have been contributing to date.

Drinking Water Quality

It is clear that most people are very satisfied with the quality of their water supply. Indeed for most, it is so reliable that they scarcely think about it.

A minority complained about the smell of chlorine, a taste they don't like or occasional discoloration, but almost no one seriously questioned the safety of their water. A very small number had some worries about long-term effects of residuals such as oestrogens or traces of chemicals, including fluoride.

Cost

Respondents were aware that bills had risen overall but for the majority they still compared favourably to other utility bills. Some respondents in high rateable value homes or with high metered usage, and most respondents in the South West, however felt that their water bill was already excessive. Throughout the sample respondents on low or fixed incomes, particularly pensioners and lone parents, felt that although a price rise was inevitable they would be hard pressed to pay much more.

Water Industry Finances

There was widespread, if somewhat vague, awareness that water companies made large profits. There was very little awareness of overall turnover of the companies. There was widespread resentment at reported levels of profit, particularly amongst respondents who paid higher bills, amongst those who were aware of leakage figures and amongst some who had experienced hosepipe bans. Some noted that customers cannot choose not to consume water and others that profits did not appear to be hampered by poor husbandry of resources, hence the risks the companies run in order to earn their profits appear atypically minimized.

Some respondents believed that because water and sewerage are essential services the industry should never have been privatised. Some felt that there should be direct competition between companies and that customers would then benefit from its effect on prices.

Foreign ownership of companies was resented and reports that several water companies had recently been bought or sold was taken as evidence that they are desirable because profitable at the expense of the captive customers. Further investigation into the water company finances during the deliberative period considerably increased resentment. A good number felt the companies were exploitative and could not be trusted.

Leakage

All respondents felt that the rate of leakage was unacceptable. All felt that it should be reduced, and continue to be reduced. While some respondents were willing to accept a slight (2 or 3%) increase in bills to fund leak repairs the majority felt that the cost of repairs should be met from profits until the leakage is reduced considerably. Discussion of many other issues, such as water conservation or the necessity to meet future demand nearly always lead back to repeated insistence that leakage must be reduced. Hence it was clear that reasons to reduce leakage are not solely economic, but diverse.

Environment

Most respondents were satisfied with the current state of the water environment. Most felt that rivers and coastal waters are considerably cleaner now than a decade or so ago. None felt that the water environment was the sole responsibility of the water industry. Rather it was felt that local and national government had a part to play. In the South West it was felt that visitors and second home owners who benefit from improvements to coastal waters should contribute towards the cost of those improvements. Overall leisure users of the water environment were very positive.

Many, but by no means all, feel that global warming is a threat to which all sections of society must respond. Most felt that the water industry must address the probability of water shortages and must therefore improve collection and storage and reduce leakage. Initially, few thought that the water industry contributes significantly to greenhouse gases. During the deliberation some respondents were pleased to discover that the water industry is responding to the challenge of climate change. Awareness of methane and other greenhouse gas emissions was raised and some felt that methane emissions in particular should be reduced.

Responsibilities and water conservation

A good number of respondents had thrifty habits and conserved water, whether or not they were on a meter. Some metered customers claimed metering made no difference to their consumption, others claimed it had affected their consumption.

Whilst many were willing to save more, there was quite a bit of feeling that water-saving devices should be promoted and subsidised by the water companies or the government. Some respondents were aware of some such subsidies at present. Compliance and motivation to save water were adversely affected by perceptions of leakage from the infrastructure.

Information and Education

Respondents enjoyed both the deliberative process and learning more about the water industry. As they learned of the challenges facing the industry they felt more information should be made available in schools and to the public. As most agreed that they threw away bill inserts the most popular suggestions for public communications were television advertisements, documentaries and single, pithy informative statements printed on water bills such as "In 17 minutes a lawn sprinkler uses as much water as one person uses in a whole day." The topics they considered important included how water and effluent is treated and what is used, why water conservation is necessary and how to do it, how much water an individual uses and awareness of what should not be introduced into sewers.

Influence on Consumers' Investment Choices

Respondents were most strongly influenced by their own experience of their water supply and the bills they paid. Those who felt their bills were too high were most likely to resent water industry profits and be critical of leakage and the service they receive. The second most powerful influence on opinion and debate were media stories, primarily about leakage and profits.

Customers tend to approve of 'altruistic' expenditure, such as to mitigate sewer flooding, because they can imagine the unpleasantness of the problem and believe that the sufferers could have done little to avoid it. They are somewhat less willing to fund sewage treatment works odour reduction because they believe that those who live nearby should have found out about the problem before moving there.

Willingness to pay for Infrastructure Investment

The great majority of respondents felt that water companies, like other private sector companies, should finance their future expenditure from their own profits and resources. A small number wanted their bills to fall and were happy for improvements to be curtailed or slowed down as a result. Some, persuaded of the unique environmental and population pressures on the industry, were willing to make a small contribution towards the investment but only on the condition that their contribution was more than matched by contributions from shareholders.

Customers' Priorities, Investment Priorities and Timing

At the end of the deliberative process respondents were asked how they felt water companies should invest in improvements over the forthcoming financial period from 2010 to 2015.

The two leading priorities for customers, as noted earlier, were reducing leakage and ensuring bills are affordable. The second of these two is not an investment priority but rather an overarching priority which limits the amount customers are willing to contribute towards investment.

Within the limits of that willingness to contribute, the charts below indicate the areas designated most often as most important (1st and 2nd placings) and least important (9th and 10th placings), as measured by desired investment level. The most common 1st or 2nd placing, "Water pipes", below refers to maintaining the water supply system and primarily to reducing leakage. The next most common 1st or 2nd placing, "Water safety", refers to maintaining the current level of safety of the drinking water supply. Respondents did not feel that the level of safety needed to be raised, but rather that, if it was necessary, money should be spent to preserve the current standards.

The third most common 1st or 2nd placing, "Supply" refers to ensuring there is adequate supply to meet future demand.

These three – reducing leakage, maintaining current levels of safety and meeting future demand - were customers' leading investment priorities.

The next two priorities in rank order, "Maintaining Sewers" and "Environment" (referring to improving the environment impacted by the water industry), were placed 1st or 2nd only half as often as "Supply" and only one third as often as "Water pipes". In other words, overall they were considered markedly less important priorities. Across the sample "Maintaining Sewers" was ranked most often as a middling priority whereas

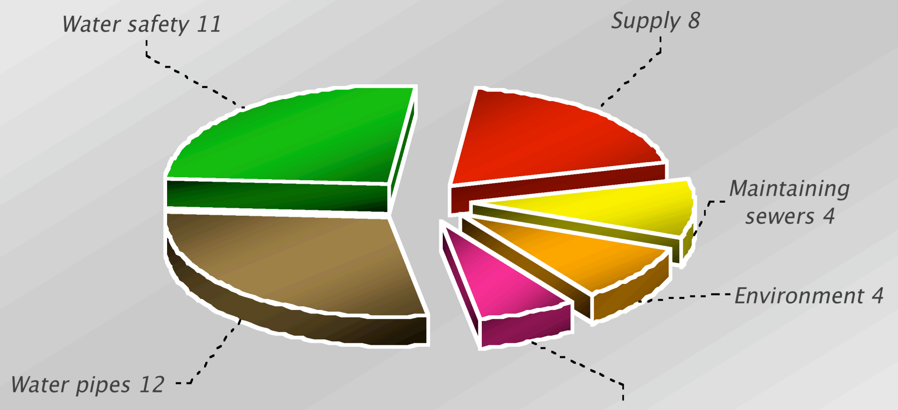
“Environment” was placed evenly across all the rankings from highest to lowest priority.

In terms of timing, customers felt that priorities of timing were the same as investment. In other words the most urgent improvements were fixing the leaks, maintaining current safety levels and ensuring adequate supply to meet future demand.

Customers did not place a time limit on the required improvements or maintenance. They did not consider the price review period to be a relevant temporal limitation. In other words they felt the work should be done speedily and carry on as long as necessary.

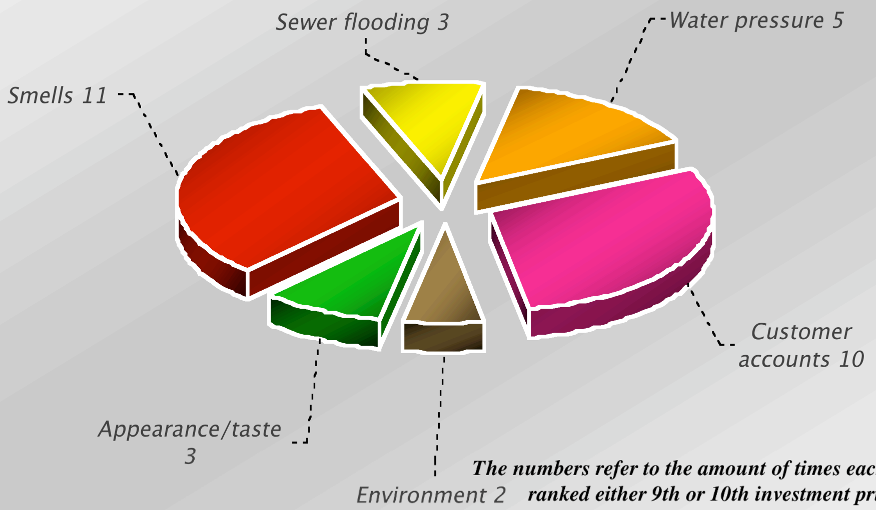
Customers want an efficient, safe, reliable supply of water at a reasonable cost now and in the future and everything else is of markedly less importance.

Fig. 1: Frequency of 1st and 2nd placings in investment priorities



The numbers refer to the amount of times each area was ranked either 1st or 2nd investment priority

Fig. 2: Frequency of 9th and 10th placings in investment priorities



The numbers refer to the amount of times each area was ranked either 9th or 10th investment priority