THE WATER REPORT EXPERT FORUM

Please help us get fast feedback on key industry issues and policies by joining our The Water Report Expert Forum. The process is simple, easy and completely anonymous. You will be emailed a survey once every few months by our research partner Accent, to complete online. Accent send us aggregate, anonymised data which we report in the following issue.

We are actively seeking new members, so if you are working at a reasonably senior level in the sector, within a company or at another stakeholder organisation, please email *karma@thewaterreport.co.uk* to join. Thank you very much to our existing members.

THE WATER REPORT
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HIGHS AND LOWS

Higher charges will make trust in water worse – but few see the sector preparing effectively to tell customers they will be paying more.

Higher water charges will worsen the public's already deflated trust in the water industry, and companies are not preparing effectively to gain customer consensus, agreement or understanding for higher bills. That's according to our latest The Water Report Expert Forum survey.

Water prices are only heading in one direction, to fund increased investment and greater resilience, and to cover higher costs and interest rates. So how can paying more for water be 'socialised' with customers?

Looming problem

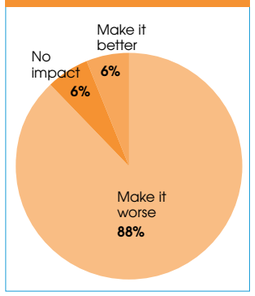
88% of Expert Forum respondents felt higher prices would worsen public trust in the water industry (see chart 1). One remarked: "No-one likes to pay more for a service that is perceived to be poor. Unless couched in the right language, this will be horrendous for the water sector reputation."

There were multiple references to lack of public understanding of the industry in explanation. For instance, one participant said: "Customers do not understand why higher prices are needed – we need to be transparent about what they will get for the money and that they will not be asked to pay for anything they have already paid for. And I am not sure that we are doing enough to deal with myth busting around this and other areas of concern."

Another recurring theme was the narrative that dividends have been extracted that should have been invested in infrastructure. Some comments included:

- "I think that the industry has essentially 'lost' the public because of the perception, rightly or wrongly, that customers' money has been taken out of the industry in dividends to generally overseas owners. Furthermore, there is also a coexisting wrong aspersion that environmental pollution today is worse than it has ever been due to social media and some high profile activists. Higher bills will be seen as lining owners' and directors' pockets rather than as going towards improving the environment."
- "Part of the problem is that customers have heard the rhetoric that companies have already had monies in previous price reviews for the investment they now say is needed and vital. There is a perception of mismanagement of monies as well as too much being given to shareholders and in bonuses when performance is also at a low."

CHART 1: HOW DO YOU EXPECT HIGHER PRICES TO AFFECT TRUST?



We also received comments on the unwelcomeness of the price rises right now. One Forum member said: "People do understand in many cases the price impact of new investment but people are also concerned about the timing of reducing what is fundamentally a backlog due to under investment now when home finances are tight." Another observed: "Any increases in price that are driven by so-called 'enhancement' expenditure will likely undermine trust. Customers don't want to pay more for added extras. They want the basic service to work well and reliably."

Lack of effective leadership at sector level was also mentioned. For instance: "We have good leaders at individual organisational level – but it feels leaderless at a sector level…This leadership gap is a key reason we appear unable to have an effective counter position to challenges and the lack of trust."

The few who felt higher prices would not harm trust cited reasons such as short term effect: "In the short term, around when the rises are revealed, there will be a negative impact however I expect it to lessen quite quickly given that water bills are still so much lower than other utility bills."

Poor preparation

Against this elevated risk of further deterioration of trust, The Water Report Expert Forum did not feel companies were effectively preparing to 'socialise' the idea of higher charges with their customers. 50% said efforts were ineffective, 25% didn't know, and the rest were split equally between seeing preparations as effective and neither effective nor ineffective (see chart 2).

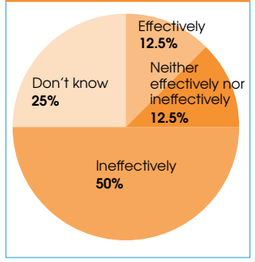
Many referred to the fact that, through their involvement in the industry or through media reports, they know about the prospect of higher charges – but they have not received any communications from their water company as a customer. The sentiment was summed up by the Forum member who said: "As a professional I see companies talking very positively about this, as a customer I don't see anything. Speaking with others, they have a similar experience – the good words in documents and conferences don't appear to be reflected in customer experiences."

Another called efforts: "Very poorer so far – need to promote an honest debate."

Again, leadership surfaced as an issue. Some comments were:

- "In the press, the story is essentially that the bill rise of 40% is to fix leaking pipes and reduce pollution. A lot of people think they have already paid for that and why should they pay again. The Government has been reluctant to lead from the front to explain the expanded environmental programme because there is no national water strategy. Water UK are absent in the press and the water companies are just not selling the need and reasons for the price rise."
- "It is not really their [water companies'] job. The regulator needs to say publicly that a step change in investment is required and that bills will have to rise as a result. For Ofwat to put that responsibility on the companies is tantamount to ducking their responsibilities as a regulator."

CHART 2: HOW EFFECTIVELY ARE COMPANIES PREPARING TO SOCIALISE THE IDEA OF HIGHER CHARGES?



Those with more positive views noted efforts were mixed across the sector, and that it is too soon to judge: "Too early to tell – it will be very interesting to see the outputs of PR24 submissions over the next few weeks and months and the associated comms that go with them."

Company actions

So what actions might companies take to explain and build consensus on higher charges?

- **An independent voice** – "Finding a unifying voice, ideally an independent voice, would be a good step forward;" "We…need an independent spokesman for the sector whose views would be trusted by customers."
- **Articulate the need** –"Highlight the investment needs and that this is what the money is going to fund. Companies could acknowledge the growing problem of ageing infrastructure in a 'we accept we haven't been investing enough for the long term' way. Companies can also talk to the way climate change has added pressure;" "Set out the long-term delivery strategy and strategic vision…start with 'WHY'. The vast majority of customers in the south-east have NO clue they live in an area of water stress."
- **Fix the basics** – "The key for me is really demonstrating progress in the areas people value. 1) Customer service – has to be better. 2) Leaks – must be resolved quicker. Spills – must be reduced. Once the basics are heading in the right direction then the conversations about water consumption and telling people what they can and can't flush (wet wipes) can come after." "Stop talking about 'socialising' and get on with some major works to improve the dire state of the sewage infrastructure."
- **Honest, proactive communications** – "Build trust, lay the cost out, be transparent and be honest. Engage communities in the solution, allow them access to costs associated with infrastructure and how that translates to bills, be transparent about revenue caps etc;" "Leaders need to be present in the public space and be honest and straight in their communications. Companies must work with communities to explain what it takes to have an endless supply of clean drinking water, delivered to the tap and to remove and treat sewage to the standards we do in the 21st century. Companies also need to explain why they have big debts and the fact they invest in assets that will last 100 plus years means that they will be need to borrow money: the equivalence between debt in the industry and dividends removed from the industry leaves a strong impression. I would also advocate bringing back some pride into the industry: the condition of most treatment plants is appalling and it is obvious to even the most casual observer that they have been neglected."

Who could help?

Some respondents argued companies are limited in what they can do: "delivering the message through others represents a better option."

Others argued expressly that it is not water companies' job to dream up ways of winning customers over to higher charges: "It is not their job. The regulator needs to be quite open that pric-

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es have to rise to pay for much needed investment. They also should also be clear that this is not investment that customers have 'already paid for'. Frankly, Ofwat either needs to defend the record of the sector it has regulated for the past 33 years. Or it should admit that it has failed as a regulator. The more Ofwat continues to criticise companies for poor performance whilst simultaneously claiming it has done its job effectively, the less the outside world with trust the regulatory system."

So which other stakeholders could help and how? The Forum offered many and varied suggestions, including: government, local authorities, regulators, Water UK, CCW, citizen scientists, environmental NGOs, academics, economists, younger generations, the media and critics – "work with organisations that are anti-water companies – embrace the criticism and work with it".

One participant pertinently remarked: "We will not succeed unless all stakeholders do their bit."

Alternative models

Finally, we asked for views on whether we should consider alternatives to the existing arrangements for water charging, given the likelihood of a persistently higher price environment. 75% said we should, with only 6% firmly against and the rest unsure (see chart 3). One remarked: "Water is too cheap and the tariff structures too one dimensional. The principle that people pay on the basis of cost of delivery needs to change. We need to wake customers up from the slumber on water issues and the environment, most people simply don't see the link."

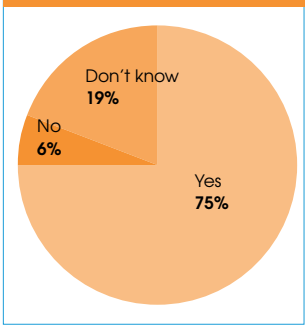
We asked what alternatives we might consider. The most common suggestion was for full universal metering – such as "All properties should be on water meters. If you don't measure it, you can't manage it!" – with many seeing that being paired with tariffs where there are higher charges for higher use of one sort or another.

Some other ideas offered by the Forum were:

- "The Government could set a minimum amount that must be supplied to everyone (say 75 litres per person per day) which could be paid through a taxation (council tax?) with a price set centrally. This could then be used to fund the investment required in the sector to clean up the environment. All other consumption should be priced per litre according to a market rate that is local. In other words, you can wash your car for very little in The North in winter and it is very expensive to do so in The South in summer."
- "We should ensure fair charging that is appropriate to affordability of different groups of people e.g. low income families, unemployed, OAP, disabled. Why do we not have a single national bill with a consistent approach to charging… that the companies all buy into? I am not sure competition achieves very much or has delivered what it was intended to deliver at water privatisation."
- "A new model should be introduced that breaks the link to water being free at source and waste free to discharge. The cost of abstraction should reflect the environmental cost of that abstraction, for instance abstraction from a chalk stream in the middle of a drought should be significantly higher than the use of moorland surface water in winter. The cost of discharges should reflect the impact that discharge is having on the watercourse, where discharges into a poor quality river in low flow conditions would have a higher cost than a good quality river in high flow. The contaminants would also vary depending on their impact on the river quality (nutrient costs higher in warmer water due to the impact of eutrophication and algae)."
- "More explicit attribution of costs and bills to specific services (including, if adopted, social tariffs) and outcomes."
- "Offsets to customers and communities who save the system money by changing their behaviour."
- "[We] also a need to consider more strategic options associated with profits and dividends and accountability/fairness."

One contributor pointed out the difficulty inherent in changing the system, and the fact that, ultimately, we all pay one way or another: "I look at it from a customer perspective in that water companies have not been good at linking the bill to their areas of responsibility and the cost of maintenance and investing to increase standards etc…It would be very difficult to suddenly say 'your water charges don't include x or y' but see no tangible reduction and then find I have to pay for it somewhere else."

CHART 3: SHOULD WE CONSIDER ALTERNATIVES TO EXISTING CHARGING ARRANGEMENTS?



Other thoughts

- "The cost of water is very divorced from the value of water, lots of education is needed in this area. Chasing existing shareholders for the issues of previous shareholders – those that have now left the industry – will not help. We keep hearing the phrase 'we have already paid for this investment'– that is a real problem/perception."
- "In water stressed areas, water restrictions should be annual events, so no hose pipes in some parts of the country from 1 April to 30 September could be implemented."
- "Higher bills now is just part of the story looking forward. We actually pay too little for water so its value is vastly under-appreciated. We urgently need to look at what's happening in other countries to instil a sense of urgency for action and behaviour change towards citizen responsibility and the polluter pays principle: WE are all the polluters and users of water." TWR

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