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# Customer views on water & waste water services in Scotland

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Board paper for Customer Forum

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## 1 Introduction

Qualitative research was commissioned to gain a deeper understanding of customers' perceptions of water and waste water and specifically to understand views on the cost of water and willingness to pay. Mindspace, a market research agency based in Scotland, was commissioned to conduct the work. This paper summarises the full research report [link?]

A total of 8 group discussions and 2 depth interviews were conducted amongst domestic customers with 3 groups discussions and 3 depths with businesses. The sample breakdown was as follows:

<i>Domestic</i>			
1	Urban (Aberdeen)	Under 45 yrs	Council tax band C,D
2	Urban (Edinburgh)	Over 45 yrs	A,B
3	Rural (Isle of Bute)	Under 45 yrs	A,B
4	Rural (Kingussie)	Over 45 yrs	C,D
5	Urban (Aberdeen)	Under 45 yrs	A,B (Vulnerable, with family)
6	Rural (Crieff)	Over 55 yrs	A,B (Vulnerable incl pensioners)
7	Urban (Glasgow)	Under 45 yrs	E,F,G,H
8	Rural (Crieff)	Over 45 yrs	E,F,G,H
	Depths x 2		
<i>Business</i>			
9	Urban (Glasgow)	£2k+ water bills	
10	Urban (Edinburgh)	Under £2k+	Micro businesses
11	Rural (Isle of Bute)	Under £2k+	Micro businesses
	Depths x 3	£2k+ water bills	Larger businesses

## 2 The current context

### *The lower income domestic customers are feeling the financial squeeze however water is not a top-of-mind bill*

Some customers are feeling the economic squeeze more acutely than others. Many talked about rising costs and the adaptations they are making, such as cutting back on luxuries and spending less in the supermarket. Pensioners are acutely aware of rising costs in the context of their own finite capital. Others are being forced to rethink their lifestyles because of redundancies, job uncertainties and pay freezes. At the most vulnerable end of the social spectrum people are struggling to pay bills, juggling to meet the needs of their children and some are already in debt and fielding the demands of debt collectors.

At the more affluent end of the social scale, there was little sign of any economic hardship.

The rising costs that appear to prey most on people's minds relate to energy and fuel costs followed by food prices: few had given very much consideration to their water bills. For the majority of Scots, water costs sit below their radar primarily because these are bundled up within the council tax bill.

The invisibility of water is important context for understanding attitudes to water pricing. With no obvious touch points such as a bill, Scottish Water has a low profile and is not tarnished with the same brush as energy providers. The water itself is seen to be reliable and very high quality and customers conclude that they have no reason to complain. Despite its monopoly status, there appears to be no animosity to Scottish Water which is either without identity or draws subconsciously from Scotland's positive water imagery.

Customers in the vulnerable sample have particular issues to contend with. All were living on benefits or state pension in low grade social or council housing and included people with disabilities, single parents, unemployed and/or those trying to get back to work – and worrying about the changes to the benefits system. This group is particularly hard hit by rising fuel bills and often had contrasting views on the quality of water compared to the better-off respondents. Their views are shaped by problems such as discoloration, unpleasant odour & taste, low pressure and blocked drains – all of which they associate with the Council's poor maintenance of the buildings.

*“What I find amazing is how the water in your toilet stops the stink coming back but on a windy night when the water goes backwards and forwards in your toilet...what a stink comes back from that.”*

*“When I run my bath the water is brown, you get brown minging stuff. That's your boiler: it gets a film all the way round it.”*

*“I would say about once a month the water gets turned off in our building for some reason. When that happens we phone the council and they send workmen out to fix it so it must be the council then is it?”*

*“The council have stopped cleaning the drains so they get blocked and there's nowhere to for the water to go and the people are getting flooded and that, so maybe it should be for the water company to take on that job?”*

### ***Business customers are cutting costs where possible: only the largest have considered water related efficiencies (most still assume water is a monopoly)***

While the large businesses in the sample feel they are weathering the storm, smaller businesses particularly are finding the current economic climate very challenging. Recessionary measures include cutting staff/hours, reviewing suppliers, downsizing premises and renegotiating payment terms.

*“I think that businesses are generally not getting a lot more for their product so every increase they get from suppliers is a problem.”*

Like the domestic sample, water costs tend to be seen as the 'third utility' after the more significant energy bills. However, business customers knew that water costs had risen significantly over the last few years with some estimating that rises had been in the order of 15-20%.

Small businesses are annoyed by the relatively high fixed charge: those using a domestic-level amount of water particularly resent the fact that they are charged on a business rate for effectively a domestic service.

The other important contextual point for businesses is their very shaky understanding of how the industry is structured. All were Business Stream customers but there was confusion about how water pricing is decided, most thinking that as the only supplier Business Stream is effectively a monopoly setting prices.

*"Business Stream is a profit making organization, it's as simple as that. There is infrastructure needing renewing because it's not been done for years but they're still making a load of profit out of us."*

*"I think Business Stream have pretty much of a monopoly up here; there are one or two alternatives but you just stay with what you know."*

*"I think when Business Stream was set up they had the monopoly for x amount of years but I think that's coming to an end soon and there are other companies coming into the market."*

### **3 Response to pricing scenarios**

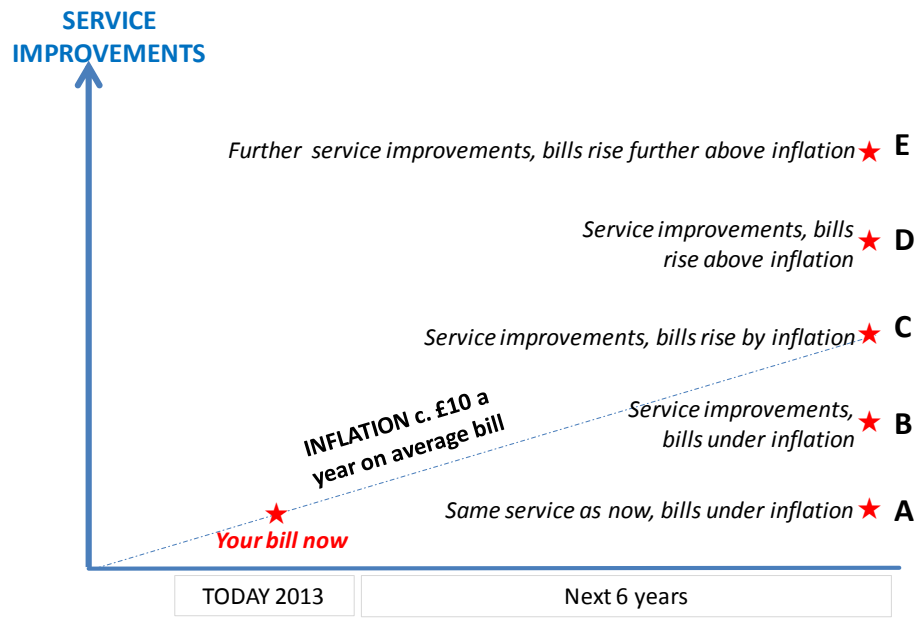
Prior to seeing the scenarios, both business and domestic customers appeared to accept that water price rises are an inevitability, either because water prices specifically have been on the rise (business customer view), or just part of an expectation that bills only rise (domestic customer view). Domestic customers generally expected to see bills rise by £10-£20pa.

*"Probably an increase will be in the offing, isn't everything?" (Aberdeen CD band)*

*"You expect it to go up don't you, it's par for the course and if it is regulated by the council or the Scottish Government they will increase it because they have to increase it in any direction they can" Edinburgh SME*

A price rise of this sort of magnitude (£10-£20pa) was justified in the minds of many customers by the perception that Scottish Water's costs would be rising. For domestic customers, there was no evidence to suggest that people were taking into account anything other than a routine price increase to maintain the level of service they currently receive – with no consideration of the scale or nature of specific investment.

Respondents were asked to consider the following price scenarios. (NB while the stimulus board gave the illustration of £10 per annum inflationary increase on an *average* bill, respondents were also briefed on how much this would be for their bill based on their Council Tax band. It was also explained that increases would be year on year over a six year period.)



**Domestic customers opt for inflation or below: C (small majority), B (large minority) or A (a minority)**

In deliberating the different scenarios, the following were the dominant themes:

- 1. Inflationary rises in line with expectations:** some opt for inflationary rises (C) because this fits expectations for bill rises and the illustration of the average (£10) was in line with spontaneous guesses of the size of an increase – and for many the actual amounts look manageable

*“There’s not a lot of difference between 2 or 3 or 5%, a fiver here and there. I’d be happy with C.” Crieff EFG band*

The vulnerable groups also opted for inflationary rises but not because they felt this was fair or would result in improved service, but they felt to protest is to fight a losing battle

*“A or B will never happen, there’s no way, it will flatline at C.” Aberdeen AB (Vulnerable) band*

*“You just have to pay it because if you don’t pay it you get a debt collector on your tail.” Aberdeen AB (Vulnerable) band*

*“Unless you are on the board of the water board, we don’t know as a consumer how much they spend per year or how much they lose, but I don’t think you’ll ever find a poor water board company.” Aberdeen AB (Vulnerable) band*

*“It’s the same as the TV licence, say you’ll pay it and you get good programming and you get poo programming.” Aberdeen AB (Vulnerable) band*

*"That all looks fair and well but I find it hard to believe what you're going to get. They say oh we'll do this and we'll do this and that and the next thing and I don't believe anyone." Aberdeen AB (Vulnerable) band*

- 2. Increases necessary to maintain service:** some believe that increased prices are necessary if Scottish Water is to meet its own rising costs and therefore *maintain* a quality service – again supporting inflationary increases (C)

*"I'm A but I can understand C because it doesn't appear to be profiteering at that point because everything is going up for them too." Glasgow EFG band*

- 3. Happy with the current service:** most customers feel neutral to positive about their water company and have found no reason to complain about the current service levels. The draw of lower bills (B) is greater than the promise of improved services. The A scenario was chosen less often as it was associated with the risk of lack of investment.

*"I would ideally sit at B because it's saying service improvements but I'd love to know the details as to what the service improvements would be because I'm happy with the service now." Aberdeen CD band*

*"B I suppose sounds the best because there's an improvement in the service and it's still under inflation." Glasgow EFG band*

*"It depends on what you mean by service. C is fine but if you go to A and get the same service there's no point in spending more money than I need to. So I would say A."*

*"I've never had a problem with it, comes out, tastes fine so I'm happy with the service now so if it becomes cheaper and cheaper that's great." Glasgow EFG band*

- 4. Cynicism about lack of choice/control:** discussing water pricing in the context of a monopoly provider can shift views from neutral/positive to a more negative position and raises questions in customers minds

- Is there a real need for increasing bills?
- Will bill increases reflect true cost needs of Scottish Water?
- Are they maximising internal efficiencies before raising prices?
- Is Scottish Water's senior management feathering its own nest?
- Is there any control on prices? Will they be capped at some level?

- 5. Concern about bill rises in the current economic climate:** particularly in light of wage freezes

*"We will resent paying unless we can see what it's going on and we can see it."  
Crieff Vulnerable*

*"Life is getting difficult for a lot of people where you're not getting wage increases, food is going up, petrol, so many costs are going up. An essential utility like water shouldn't really go up I don't think any more than inflation"*

*"If they want lovely new hydro plants and everything, sorry you can't have it would be my answer ... until we have a reasonable increase in our pension." Crieff AB band*

- 6. What improvements?** Customers wanted to know what improvements they should expect for increased prices. Few could think of any improvements – but thought possibly environmental or more pertinent, Scottish Water taking on responsibility for the pipe work between a house and the road. Above inflation rises (D and E scenarios) were not acceptable choices without further detail on the type of investment planned

*"I would ideally sit at B because it's saying service improvements but I'd love to know the details as to what the service improvements would be because I'm happy with the service now." Aberdeen CD band*

*"I don't really know what it offers at the moment or what you could improve on. It obviously runs quite well because I'm unaware of it." Glasgow EFG band*

### ***Business customers opt for below inflation (A or B pricing scenarios)***

The instinct to protect the bottom line was clearly evident when businesses discussed the pricing scenarios. Indeed, fuelled by their own current financial pressures and experiences of other (unexplained) price rises, most opted for below inflation scenarios (A or B). Reasons for this include the following;

- 1. Lack of understanding about need for improvements or what they might be:** No one could think of or articulate reasons for a price rise and without any specific information relating to positive change could see no reasons for prices to go up.

*"You can turn on the tap and it's there, that's really all you need. I can't think of any improvement." Edinburgh SME*

*"Can you choose the colour of your water?!" Edinburgh SME*

*"I'm happy with the current service so I don't want to pay more." Glasgow £2k+*

*"I would go for the same service as now, A,...as a small business I would rather pay less, I'm not looking that far into the future" Edinburgh SME*

*"I just can't see what they can do to improve the service so I would go for B"  
Edinburgh SME*

*"If I was to settle for something just now on the information we've got, I would say A, same service as now, bills under inflation." Edinburgh SME*

- 2. Price rises in the current economic context:** businesses are holding their own prices and controlling their own costs very carefully. This is reflected in their responses to the scenarios:

*"I'm an inflation guy. If you look at 3% a year over 6 years is an 18% increase: that's a hell of a jump. I'm sure I couldn't put my prices up 18% over 6 years, that's a lot of money they're getting in 6 years. What are these service improvements, musical taps or something?" Edinburgh SME*

*"I'm a sole trader and I want to keep everything to a minimum" Edinburgh SME*

*"Businesses can't put up their prices." Bute SME*

*"I'd keep it as inflation as there are a lot of people not getting any wage rises never mind anything else." Edinburgh SME*

*"I'm thinking all about me today, selfish, I'm in business." Edinburgh SME*

**3. Conjecture that Scottish Water should be able to maintain its service without having to increase prices to the customer:** businesses question Scottish Water's own internal efficiencies;

*"I feel we are subsidising their inefficiencies – I suppose they could invest in new ways of doing business but they should already be doing that?" Glasgow £2k+*

*"Is it just going on public sector redundancies? In private companies we'd never have that luxury" Glasgow £2k+*

*"You would hope for service improvements below the rate of inflation, that is if they can improve it."*

**4. Fairness:** price rises deemed unfair e.g. if the extra investment is required to solve problems caused by past neglect/lack of investment in previous years; or for ongoing maintenance as opposed to tangible, customer-benefitting improvements; or for unspecified reasons.

*"Inflation maybe...certainly no more than that as it's not fair if they have the monopoly and it's such a commodity" Glasgow £2k+*

*"They must know if they need to increase by 4% to cover this: if we give them carte blanche and say you can have 8% they'll take it. We need to know what it is going to be for" Edinburgh SME*

*"When the economy was better they should have invested in repairs." Bute SME*

*"I start to feel that like British Rail they have sat on problems for years and now they need to sit up and take notice and it will cost us – and that is not fair."  
Glasgow £2k+*

Businesses were more questioning of Scottish Water than the domestic customer sample, and also found it much harder to comment on pricing scenarios without more information on how Scottish



Water intended to spend increased revenues. It is important to note that some business customers would be prepared to consider inflation and above inflation price scenarios if they agreed with the plans that Scottish Water proposed:

*"I would far rather they were honest and put forward a business case scenario to say this is what we need over the next few years and if that means they need extra money, to bring in shareholders' money to finance the bits and pieces, be honest about it and put forward the case" Edinburgh SME*

*"In principle I might consider paying more but I'd need the added value and understand what the improvements are." Glasgow £2k+*

#### **4 Evaluating pricing scenarios in relation to current levels of service**

To put these pricing scenarios into context, customers were shown current service standards (presented similarly to the stimulus materials used in the Stated Preference survey). Mindspace report that customers found it very difficult to evaluate this information: working with unfamiliar concepts (e.g. the incidence of sewer flooding, the economic point of leakage and carbon emissions) and failure probabilities (e.g. 1 in 10,000 probability of a specified service failure). Consequently, there was no clear analysis of areas in need of specific improvement.

A further exercise, where respondents were asked how they would spend 100 points across these service standards, also proved inconclusive in terms of identifying areas for investment. It did serve to reinforce, however, that in the main domestic customers wish to see bills rise by no more than inflation: the only respondents who were prepared to remain at a higher level (scenario D or E) based on how many points they wished to spend were either the more affluent or those on benefits who do not pay Council Tax and to whom any price increase would make no difference.

For domestic customers, the exercises tended to enlighten people as to the extent of Scottish Water's activities and most accepted that water pricing needs to ensure high standards for all and therefore viewed these altruistically. Hence when the pricing scenarios were revisited, more domestic customers opted for the inflationary scenario (C). Additionally, in the context of gas and electricity bills, inflationary rises did not seem unfair.

*"I think the service is good and if they can sustain it I can live with £10; I'm not really going to notice it." Edinburgh AB band*

*"I was A before because I didn't know what the service is, I'm quite happy to stay at B because I don't think the service is that bad." Glasgow EFG band*

*"I'm quite happy to stay with C rather than A because the poor people up in Stonehaven who have been flooded, you can bet your bottom dollar that these people are looking for improvements." Edinburgh AB band*

The business customers were similarly nonplussed by the current service standards as expressed. They were less surprised by the breadth of Scottish Water's responsibilities and rather than reevaluating their views on the pricing scenarios, it reinforced them: the information was still not

sufficient for a business to sanction even inflationary rises. Those businesses for whom water is critical felt that e.g. any supply interruption or internal sewage flooding was unacceptable. Furthermore, the presentation of current standards expressed as service failure probabilities raised questions about how Scottish Water has maintained its infrastructure in the past.

The larger businesses particularly, to provide a considered view, wanted to know:

- What efficiencies Scottish Water could drive internally?
- What is proposed/business plan for maintenance and improvements?
- What would be the potential return on investment?

*“What we need to hear from them is what do they really need to invest into, what are they looking for in terms of a figure and on that figure what are they basically going to do. New treatment plants, replace Victorian sewers, a new state of the art eco system – these are things we can have a point of view.”*

One further point made by businesses with higher water usage: reflecting their motivation to find cost efficiencies, a significant increase in the price of water should be accompanied by free advice on reducing consumption.

## 5 Conclusions & implications for the Customer Forum

**What are customers willing to pay?** In reality, most customers are ignorant of what they pay for water and what the cost includes. The price scenarios stimulus, presented as increases relative to inflation for unspecified improvements, aimed to reflect this starting point for people whilst also asking them to pause and consider what they are willing to pay.

**Across the whole sample, including both business and domestic customers, the majority would choose below inflation prices.**

Domestic customers are more likely to find inflationary price increases acceptable on the assumptions that a) they expect no less; b) Scottish Water needs to cover its increasing costs; and c) the actual figure (£10pa for an average bill as the guide) looks affordable.

The Customer Forum will need to consider these assumptions on behalf of the customers they represent: specifically, are inflationary rises necessary to maintain service in light of Scottish Water's own costs increasing? And will inflationary rises be affordable for all parts of the population?

Businesses, meanwhile, need to see a strong argument for inflationary or above price rises.

**Water affordability:** this is an important consideration for the Customer Forum. The insights from the lower income and vulnerable groups within this research suggest that any bill rises are met with a sense of defeatism amongst customers already struggling to pay. This qualitative research cannot,

however, draw conclusions about the size of this group, or indeed its profile however it does highlight how a section of the population is in need of strong representation.

Other recently published research also provides useful context for Customer Forum, highlighting the prevalence of water customers who can be termed 'water poor'

- Research commissioned by Uswitch reports that 20% of UK households are in debt to their energy suppliers, an increase of 6% on last year.<sup>1</sup>
- Joseph Rowntree report that 4m British households are 'water poor' (defined as water exceeding 3% of household income)<sup>2</sup>
- The OECD's latest Economic Survey of the UK estimates fuel poverty affects 5m households<sup>3</sup>

***Do customers believe they get value for money?*** This research has highlighted that in terms of evaluating water and waste services, the starting point for most customers is neutral, and in the absence of any problems, moving to positive. This in itself is not strong evidence that customers believe they are receiving good value for money.

In most other contexts, consumers are able to weigh up the cost, the quality and the way the goods or services in question are delivered. When discussing the value for money for water and waste services, however, few customers can make this evaluation. Most (certainly in the domestic sample, but also including businesses) did not know what they pay for water & waste, quality is largely unquestioned and few have any notion of what is involved in the delivery.

*"Never think about it; in Scotland it's something you take for granted. We don't have hosepipe bans, the water's always clean and fresh, because the water is so good I think you just accept it and are happy to pay."*

A recently published report for the Consumer Council for Water<sup>4</sup> explores how people (in England & Wales) evaluate value for money across four utilities: water, energy, telecoms and council services and finds that the 'value for money gap' is greatest for the water industry:

*It became clear that the vfm gap in the water industry does not so much represent a perception that water and sewerage services are poor vfm but that respondents found it difficult to decide whether it was vfm. There were several reasons for this doubt including the fact that much of the service is taken for granted (especially the waste water element), the lack of choice of supplier, the lack of benchmark or point of comparison and a lack of knowledge/awareness of and understanding about what is involved in providing the service.*

Customers alone cannot judge whether they are receiving value for money and therefore bodies such as the Customer Forum need to act for customers in making this case.

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<sup>1</sup> YouGov survey of 2016 adults commissioned by uSwitch Feb 2013

<sup>2</sup> Joseph Rowntree Foundation (2013) - *Vulnerability to Heat Waves and Drought: Adaptation to Climate Change* (AEA & University of Surrey)

<sup>3</sup> CPPR Customer Forum Briefing Paper (March 2013)

<sup>4</sup> Consumer Council for Water (2013) - *Value for Money: A report on Drivers of Satisfaction in the Water & Sewerage Industry*