

eftec economics for the environment

ICS consulting



PR14 Acceptability Study

Report Submitted to South Staffs Water Limited

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Executive Summary

ES.1 Introduction

A new Ofwat requirement for 2014 Periodic Review of Prices (PR14) is Customer Acceptability Testing of the proposed plan.

"Customers' views will feed into the price-setting process in one of three ways. Through direct local engagement between each company and its customers to understand customers' views, to inform development and test acceptability of the company's plan"

Involving Customers in Price Setting, Ofwat, 2012

The overall objective of this report is to understand customers' views on the proposed business plan and to provide South Staffs Water with a customer mandate to put into operation the Business Plan that has been tested in the acceptability research.

This document sets out how South Staffs Water has tested the acceptability of their proposed draft plan and presents the results of this research. Overall the acceptability research has tested customers' views on specific investments proposed for the five year period from 2015 to 2020, potential amendments to the proposed draft plan and the profile of bill increases.

ES.2 Overview of the study

The design of the study was based on an iterative process involving a pilot and main study. The main features of the approach to the study are summarised as follows:

- **Presenting the plan**: The presentation of the proposed business plan was developed in consultation with South Staffs Water. The presentation of the plan was aligned with the key business plan proposals outlined in South Staffs Water's business plan consultation and involved presenting customers with an itemised bill tailored to the customer's existing bill amount.

- **Survey design:** The survey was designed to collect information on acceptability of the proposed draft plan as well as potential modifications to the plan whilst ensuring that the findings were representative of South Staffs customer base. The survey also collected information to understand how acceptability varies across different types of customer and was developed in consultation with South Staffs Water and South Staffs Water's Customer Challenge Group.

- **Pilot survey:** The pilot survey involved administering a draft questionnaire to a sample of respondents, and requiring them to complete it in the same manner as for the main survey. It was used to 'fine-tune' the questionnaire, assess response patterns to check these are in line with expectations.

- **Main survey:** The main survey sampled 841 household customers and 203 business customers. The survey of household customers used two approaches a computer-aided personal interview (CAPI) approach and an online survey. A CAPI survey is an interview that occurred at the respondent's home conducted by an interviewer using a computer programmed with the survey. This method has the advantage of ensuring the exact meaning is conveyed to the respondent and can lead to more reliable data collection. It also has the advantage of reaching those respondents who do not have online access. However, the CAPI interviews may lead to an interviewer effect where respondents do not reveal their true answers on sensitive topics such as income.

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The online sample was the same survey but administered entirely on-line without an interviewer. This means there was no interviewer effect but the exact meaning is less likely to be interpreted correctly. The sample may also include selection bias to a greater extent than CAPI. Applying a sampling approach that uses both of these methods ensures that these issues are balanced and a wide demographic is captured.

For non-domestic customers, the computer aided telephone interview (CATI) to online format was used. This is a mixture of an online survey format with telephone recruitment. The use of an online survey and CATI recruitment has the same advantages and disadvantages as the household online survey.

- **Results and Analysis**: The findings are presented in section 3 of this report. As well as information on acceptability the findings include sample representativeness, respondent view on service, bills and value for money and an analysis of the drivers of acceptability.

ES.3 The proposed plan

Table ES.1 presents the service impacts for the proposed draft plan linked to Outcomes identified by South Staffs Water through customer and stakeholder engagement.

Table ES.1: Outcomes and Service Measures for the Proposed Plan

Outcome	Service Measure
Fair customer bills & enhanced customer service	Fair customer bills & enhanced customer service
Excellent water quality	Meeting water quality standards
Secure and reliable supplies	Providing sufficient supplies
	Interruptions to supply – reliable supplies
Environmentally responsible operations	Enhanced Metering
	Improving rivers and the environment

The survey also included questions the impact of changes in the sewerage bill and the following options:

- Investing the merger savings: The proposed draft plan assumes that the savings generated by the merger are passed to customers as lower bills. The survey investigated customers' views on the merger savings and presented the following options:
  - No change to the proposed plan – the efficiency savings are passed onto customers as lower bills
  - Use money to help customers in poverty according to their need
  - Use money to repair the water supply pipes customers own
- Introducing a social tariff.

The proposed draft plan was presented to customers in the form of an itemised bill that summarised the impact both before and after further detail was provided on the proposals. The bill impacts were tailored to the individual customer's bill by linking the bill value the respondent entered to a set of bill impacts expressed as a percentage. An interactive survey approach was used

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to present the plan that allowed customers to consider their views and potentially change their answers as they read through the information.

The proposed draft plan and associated bill impacts were presented initially as real price impacts (today's prices) with reference to inflation. Once the respondent had answered questions on acceptability the forecast impact of inflation was presented and the respondent was asked to restate their view on acceptability. We included these two questions in the study to understand the impact of expressing the bill impacts differently.

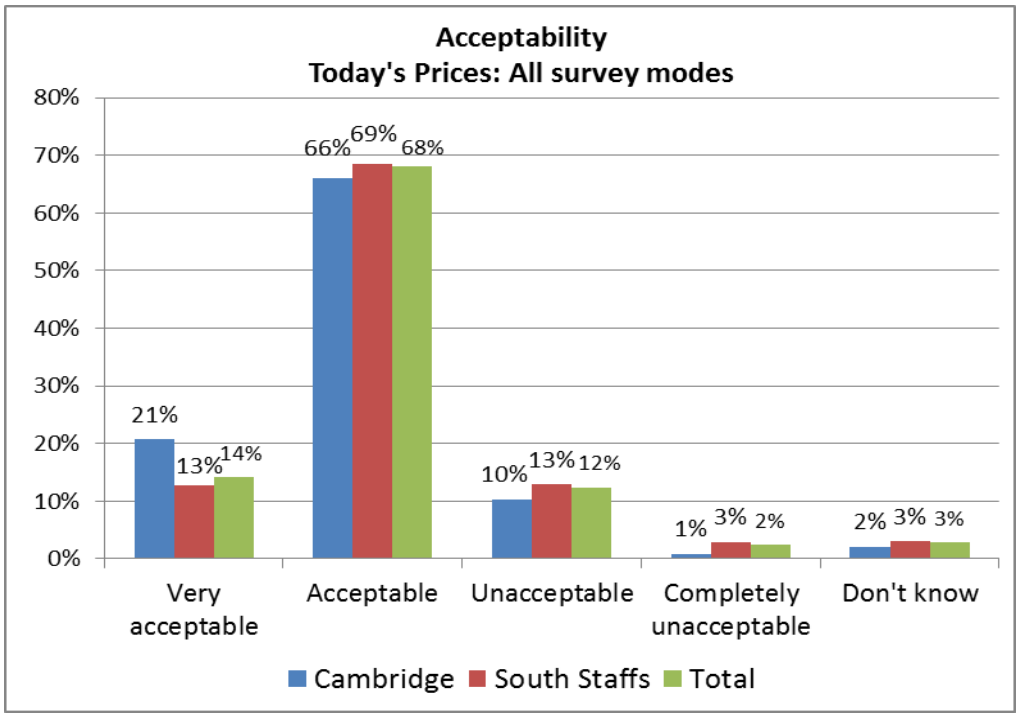
ES.4 Acceptability of the proposed plan

Overall acceptability

Figure ES.1 and Figure ES.2present the respondent's views on the acceptability of the proposed draft plan when the customer bill in 2020 is presented in today's money values (real prices). Figures ES.3 and ES.4 present the respondent's views on acceptability of the plan when the customer bill in 2020 is presented in future money values (nominal prices)

Overall the results for today's prices show that the level of acceptability is 82%. At a regional level the level of acceptance is 87% for the Cambridge region and 81% for the South Staffs region.

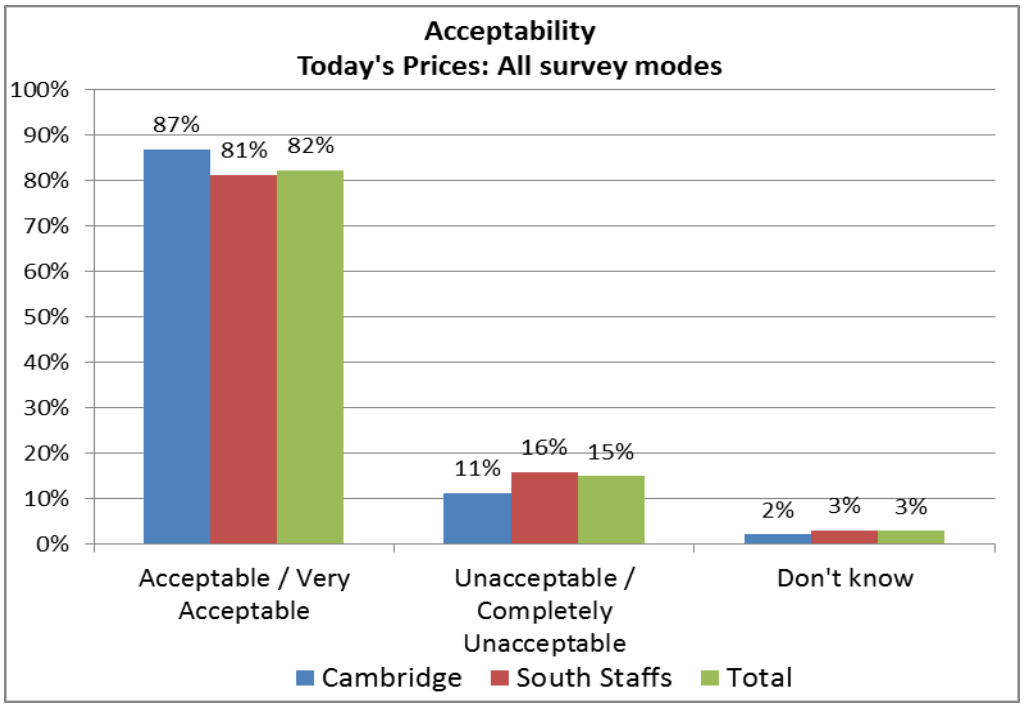
Figure ES.1: Informed acceptability today's prices



Note: The results are weighted to represent the overall profile of business and household customers at a regional level and the number of customers in the South Staffs and Cambridge regions when combined.

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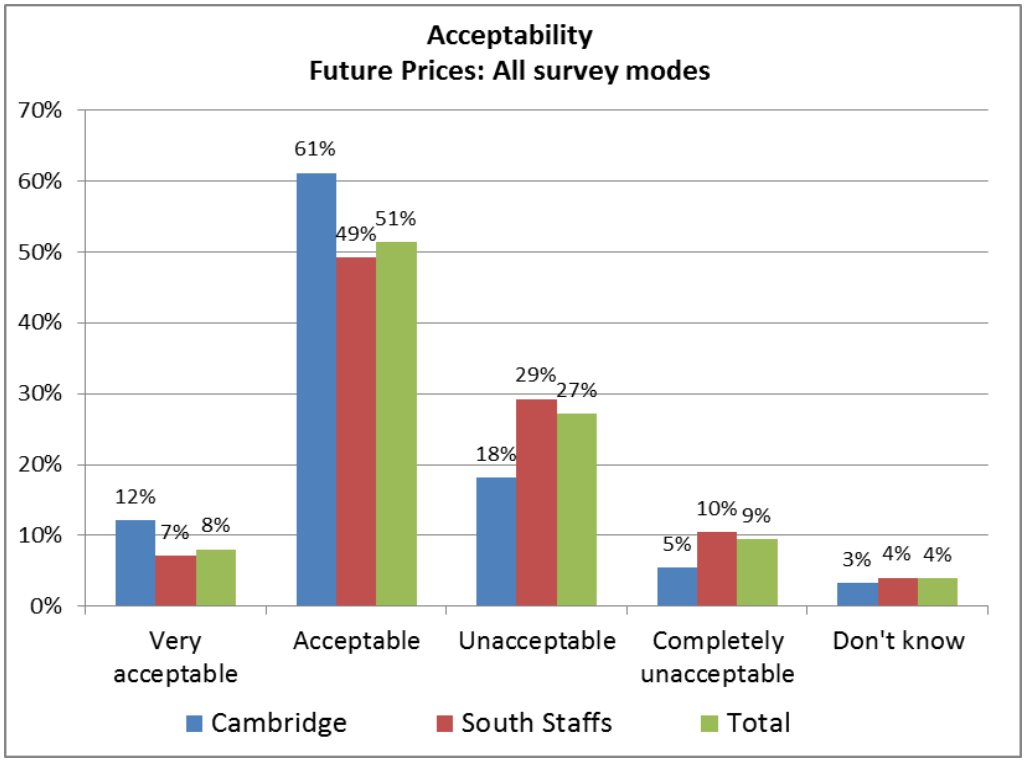
Figure ES.2: Informed acceptability today's prices - grouped



Note: The results are weighted to represent the overall profile of business and household customers at a regional level and the number of customers in the South Staffs and Cambridge regions.

Overall the results for future prices show that the level of acceptability is 59%. At a regional level the level of acceptance is 73% for the Cambridge region and 56% for the South Staffs region.

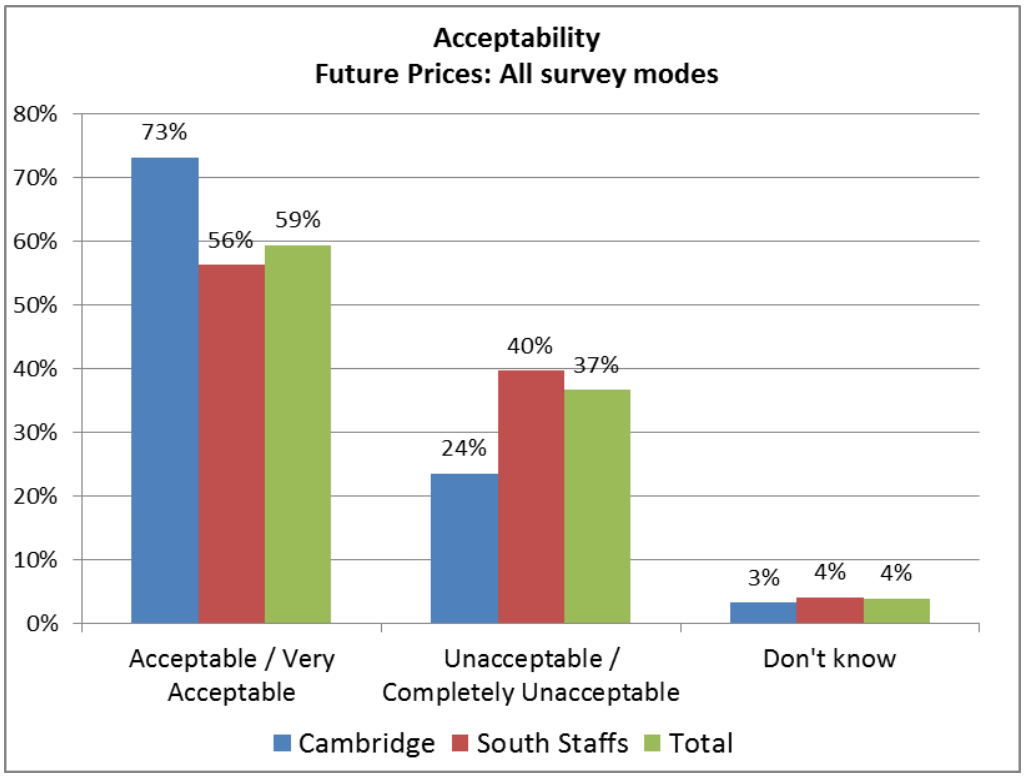
Figure ES.3: Weighted informed acceptability future prices



Note: The results are weighted to represent the overall profile of business and household customers at a regional level and the number of customers in the South Staffs and Cambridge regions.

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Figure ES.4: Weighted informed acceptability future prices - grouped



Note: The results are weighted to represent the overall profile of business and household customers at a regional level and the number of customers in the South Staffs and Cambridge regions.

The findings show a notable difference when the bill impact of the plan is expressed shown in real terms (which excludes changes in bills due to inflation) and nominal terms (which includes changes in bills due to inflation).

Analysis of the results based on bills expressed in real terms shows that respondents on lower incomes and in lower socio-economic groups (SEG) are more likely to state that the plan is unacceptable. This is consistent with the significant body of evidence that suggests that other measures such as willingness to pay values decline with income or SEG. Respondents who stated the real terms bill increase was unacceptable also stated overwhelmingly the nominal bill increase would be unacceptable.[1] This is entirely in line with expectation.

It is of more interest to understand the behaviour of those respondents who said that the plan was acceptable with bills expressed in real terms and then unacceptable when presented in nominal terms. In total this represents some 23% of respondents[2] (the difference between 82% acceptability and 59% acceptability).

A number of explanations can be proposed for this difference. First, it is well understood within customer research that respondents can respond differently to service/price trade-offs depending on whether prices are expressed in real or nominal price terms. A substantial body of economic

[1] This was observed for all but 2 respondents

[2]Based on the results weighted to represent the overall profile of business and household customers at a regional level and the number of customers in the South Staffs and Cambridge regions.

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and psychological literature supports the idea of a bias towards nominal terms thinking when making purchasing decisions[3]. This bias towards nominal monetary values is termed 'money illusion' whereby rising money values are interpreted as reductions in purchasing power. A second factor is that respondents may be uncertain about their future income prospects and hence discount the prospect of real growth in their household incomes (which would compensate for the purchasing power effects of rising money prices).

We examined the characteristics of the households that have switched acceptance to become 'non-acceptors' when presented with the bill impact in nominal terms. The analysis (presented in section 3.8) shows that those switching are distributed across the income distribution and socio-economic classifications and there is no statistically reliable relationship between these factors and whether a respondent switched. This makes it difficult to substantiate any view that the increase in non-acceptance relates in some way to the affordability of the nominal value of future bill increases. Respondents that switched views with incomes less than £10k and in the lowest socio-economic group DE respectively make up 2.1% and 5.7% of the total household sample[4].

A more likely explanation is that the increase in 'non-acceptors' is driven by those respondents interpreting nominal increases as unacceptable reductions in their purchasing power and / or respondents discounting – based perhaps on perceptions of recent economic circumstances - the prospects for future income growth. It is also worth noting that the most recent H.M. Treasury and Office of Budget Responsibility forecasts now suggest real growth in average disposable household incomes. Furthermore, analysis of historical income trends using ONS data suggests the majority of households have consistently experienced growth in real incomes in line with the average. The exception to this is households in the bottom 10% of the income distribution.

Acceptability of proposed changes

Figure ES.5 below shows respondent views on the different components of the proposed draft plan. Although the results vary across proposals the findings show that a majority of respondents agree with the proposed changes. Between 26%-33% would like to see the proposed changed delivered for a lower bill impact. Providing sufficient supplies receives the most support given the proposed bill impact.

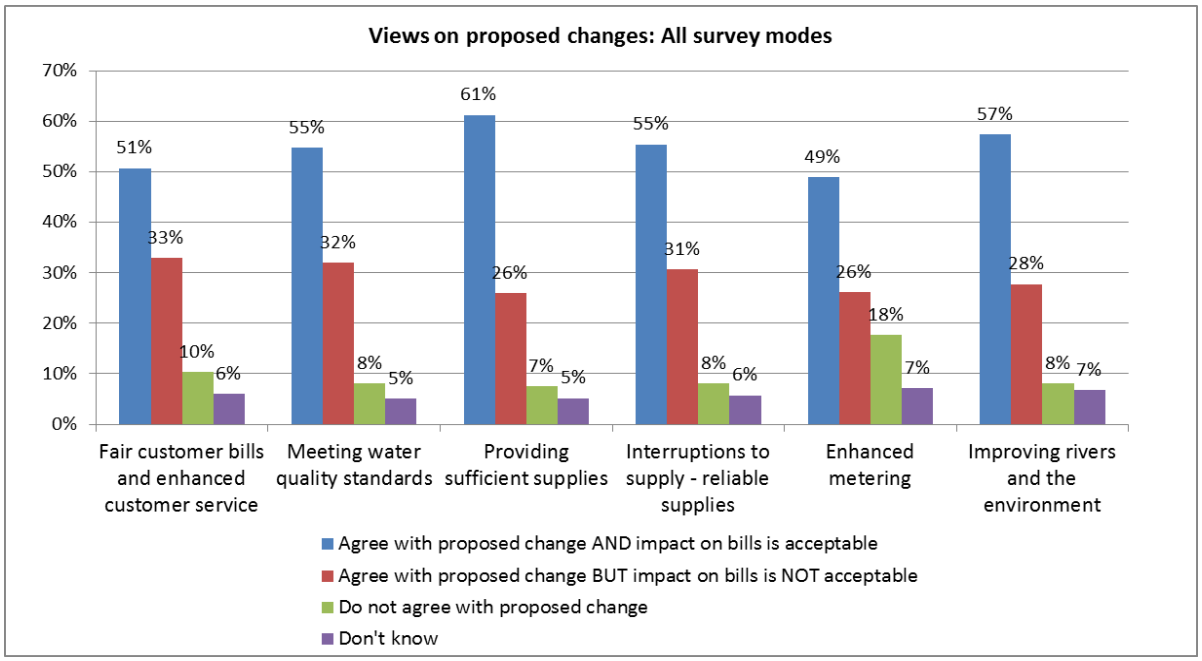
The numbers of respondent that do not agree with the changes is consistently low (<10%) across the business plan with the exception of enhanced metering where 18% of respondents disagree with the proposal.

[3] See for example Shafir, E., P. Diamond and A. Tversky (1997), Money Illusion. The Quarterly Journal of Economics, 112 (2): 341-37

[4] Note these percentages overlap and should not be added together.

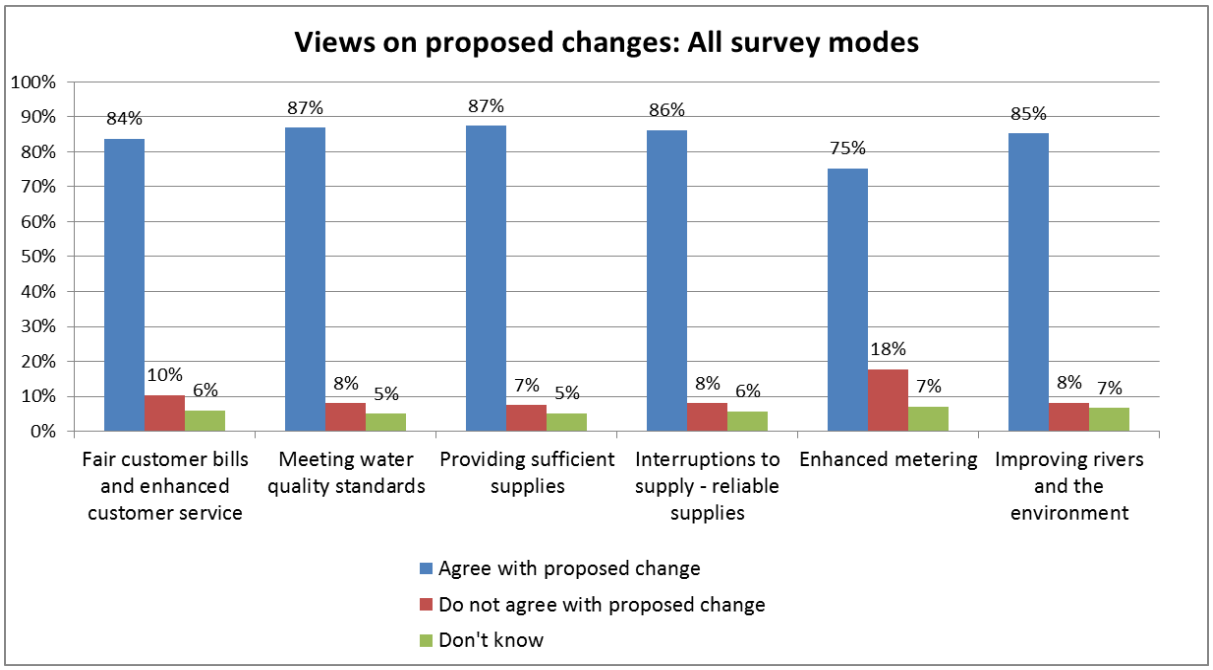
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Figure ES.5: Views on proposed changes



Grouping into 'agree' and 'do not agree' with proposed changes shows widespread support for the changes.

Figure ES.6: Views on proposed changes - grouped answers

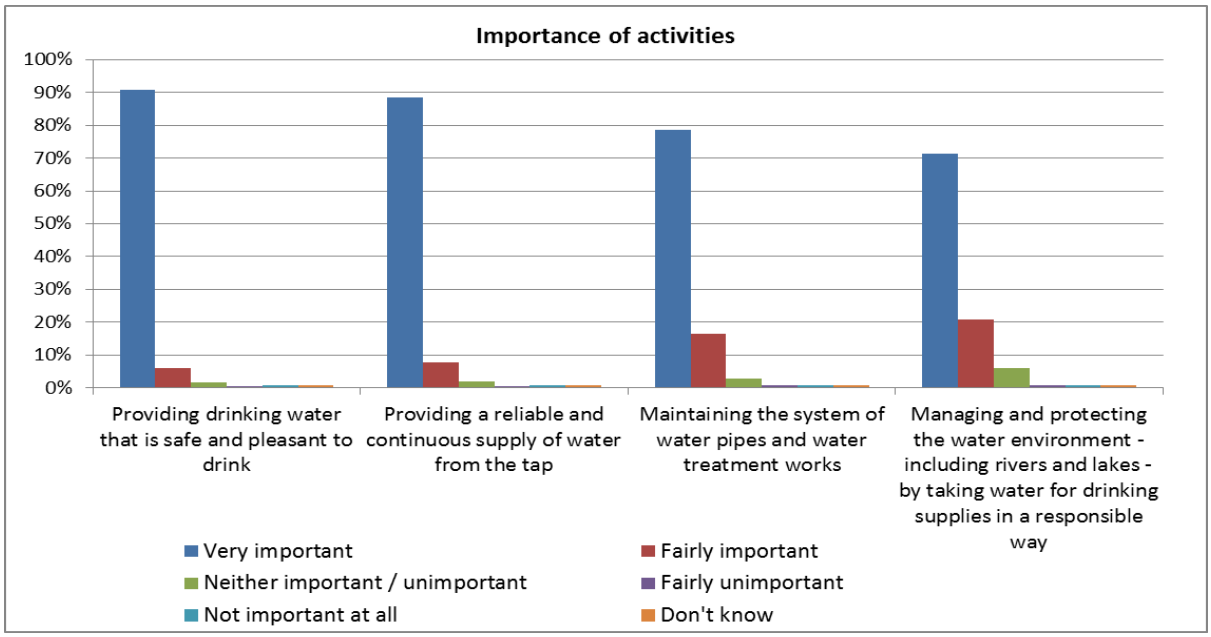


Importance of key activities

Figure ES.7 presents customers views on the importance of the key activities that South Staffs Water undertakes. All activities are considered very or fairly important by a majority of respondents. The most important activities were providing drinking water that is safe and pleasant to drink and providing a reliable and continuous supply of water from the tap.

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Figure ES.7: Importance of activities



ES.5 Further Key Findings

In addition to the findings on acceptability of the proposed draft plan further key findings include:

- Customer satisfaction is currently very high with 96% of customers stating they are either 'very satisfied' or 'fairly satisfied' with the service they receive
- While the majority of customers find their water bill affordable, a sizeable number have difficulty paying (1 in 5). This is likely to limit the appetite for additional service improvements and bill increases.
- Customers would prefer the merger savings to be passed on in the form of lower bills instead of being reinvested. However, if the merger savings are reinvested this has a relatively small impact on acceptability and customers would prefer to invest in water supply pipes over helping vulnerable customers.
- A social tariff has a large impact on acceptability reducing this by 31%.
- Acceptability is linked to customer characteristics such as income or socio-economic group and differs across regions with acceptance higher in the Cambridge region. The level of acceptance when the bill is presented in today's prices is still 78% overall for the lower socio-economic group (group DE). There is no link between age, gender or whether a customer is metered and acceptability.
- When water bill increases for improvements were presented alongside increases in sewerage bills acceptability fell for the larger increases presented. However, the results show that acceptability will not be affected for the proposed bill impacts included in the relevant sewerage companies draft business plan consultations.
- Overall the plan appears well balanced requiring fine tuning rather than fundamental changes.

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ES.6 Conclusion

The overall objective of *the PR14 Acceptability study* was to understand customers' views on the proposed business plan and to provide South Staffs Water with a customer mandate to put into operation the Business Plan that has been tested in the acceptability research.

The acceptability research has tested customers views on specific investments proposed for the five year period from 2015 to 2020, potential amendments to the proposed plan and the profile of bill increases.

The study presented customers with an itemised bill tailored to the customer's existing bill amount. The results of the study are based on a large scale sampling of household and business customers across the Cambridge and South Staffs regions. The results for the whole region show the proposed draft plan is acceptable to the majority of customers (82%) when presented in today's prices. Further analysis shows that the level of acceptance changes by region and by socio-economic group. Despite this the lowest level of acceptability is 78% for lower socio-economic group (group DE) providing confidence that the plan is acceptable.

When the bill impact of the proposed draft plan is presented in future prices (with inflation explicitly included) the acceptability drops to 59%. There is no evidence that this reduction in acceptability of the plan in nominal prices is correlated with the economic circumstances of respondents. It is possible this reduction reflects some respondents across all income groups discounting prospects for the real growth in disposable income that is predicted by the most recent Government economic forecasts.

Overall we conclude that the study provides robust estimates of acceptance that can be used to support the business plan development and submission.

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1 Overview

1.1 Background

A new Ofwat requirement for 2014 Periodic Review of Prices (PR14) is the Customer Acceptability Testing of the proposed plan.

"Customers' views will feed into the price-setting process in one of three ways. Through direct local engagement between each company and its customers to understand customers' views, to inform development and test acceptability of the company's plan"

Involving Customers in Price Setting, Ofwat, 2012

This document sets out how South Staffs Water is testing the acceptability of their proposed draft plan. This report presents the results of this research.

1.2 Project Objectives

South Staffs Water is currently undertaking customer research to support the development of its PR14 Business Plan, focusing on the acceptability of the overall plan and its impact on customers' bills.

The requirements for this research include:

- To understand customers' views on the proposed business plan
- To involve customers in shaping the overall plan
- To provide South Staffs Water with a customer mandate to put into operation the Business Plan that has been tested in the acceptability research

The acceptability research also provides an opportunity to test with customers the acceptability of specific investments, potential amendments to the plan and the profile of bill increases.

1.3 Report structure

This document is structured as follows:

- **Methodological Approach** (Section 2) – outlines the research involved in South Staffs Water's acceptability testing.
- **Study results** (Section 0) – presents the results and analysis of the survey data, including identifying factors that influence acceptability.
- **Conclusions** (Section 4) – Summarises our findings.

Annexes to this report are contained in a separate supporting document.

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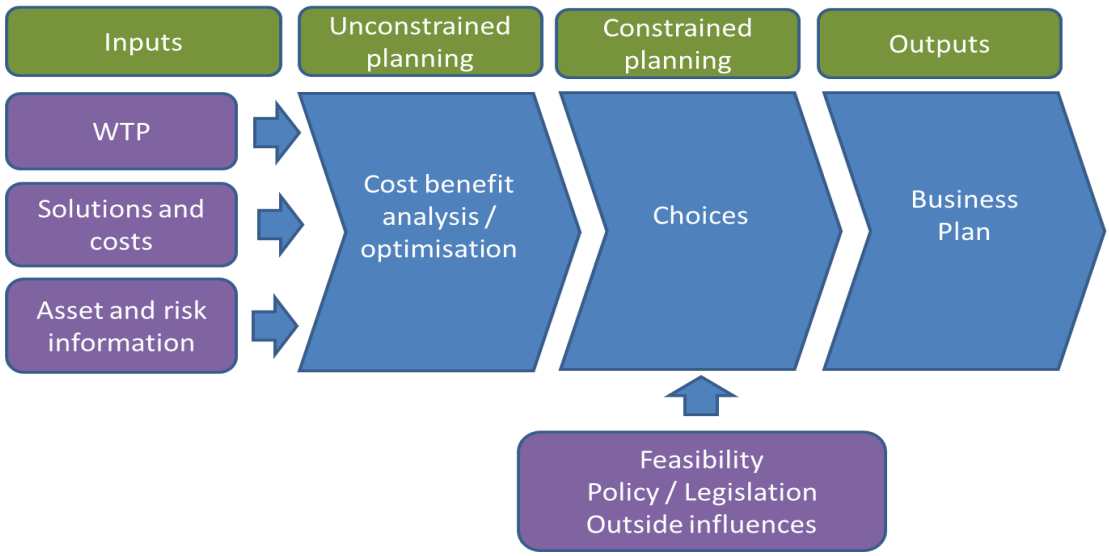
2 Methodological Approach

2.1 Background

Ofwat expects companies to test the acceptability of their plans and to demonstrate to the Customer Challenge Group that the overall plan is acceptable to customers. For South Staffs Water to comply with this expectation they have chosen to develop the approach that was taken by Ofwat at PR09.

South Staffs Water is using the results from its PR14 customer valuation research in combination with risk, solution and cost information to create an investment plan. If the plan that is developed contains only schemes that are found to deliver net benefits (i.e. scheme benefits exceed scheme costs) it may be reasonable to assume that it will be acceptable to customers. However, the plan may be infeasible since it does not incorporate practical requirements, legislation and other impacts on customer bills that are accounted for in Business Plan decision-making. Consequently, further choices have to be made to develop a practical plan that satisfies both the customers and regulators. Given the most cost beneficial plan may not be feasible – and thus the business plan will include investments customers do not consider to be cost beneficial, or investments that it is not appropriate to ask customers to provide monetary valuations for, the final business plan needs to be assessed as to its overall acceptability to the customer base.

Figure 2.1: PR14 Business planning process

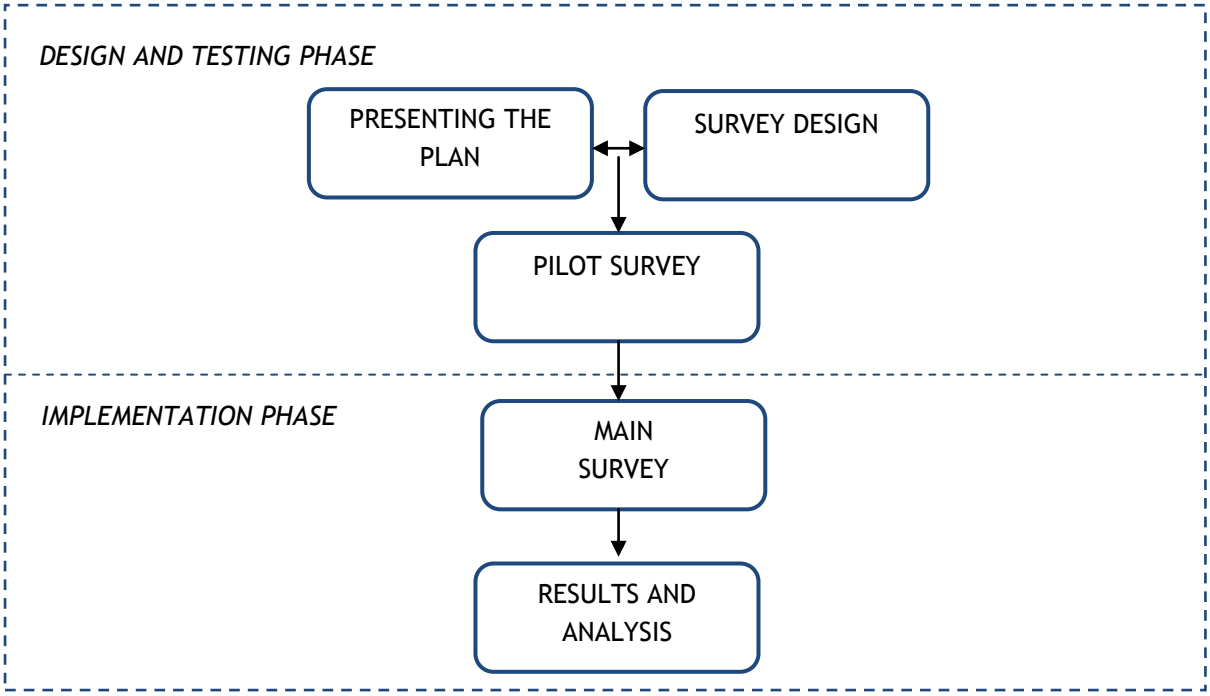


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2.2 Approach

Figure 2.2 outlines the overall approach to the study.

Figure 2.2: Study implementation



The main features of the approach to the study are summarised as follows:

- **Presenting the plan**: The presentation of the proposed business plan was developed in consultation with South Staffs Water. The presentation of the plan was aligned with the key business plan proposals outlined in South Staffs Water's business plan consultation.

- **Survey design:** The survey was designed to collect information on acceptability of the proposed draft plan as well as potential modifications to the plan whilst ensuring that the findings were representative of South Staffs customer base. The survey also collects information to understand how acceptability varies across different types of customer. The survey was developed in consultation with South Staffs Water and South Staffs Water's Customer Challenge Group.

- **Pilot survey:** The pilot survey involves administering a draft questionnaire to a sample of respondents, and requiring them to complete it in the same manner as those who will be recruited for the main survey. It is used to 'fine-tune' the questionnaire, assess response patterns to check these are in line with expectations. The findings of the pilot survey are presented in Section 2.3 and were taken into account to revise the questionnaire.

- **Main survey:** The survey of domestic customers used two approaches a computer-aided personal interview (CAPI) approach and an online survey. A CAPI survey is an interview that occurred at the respondent's home conducted by an interviewer using a computer programmed with the survey. This method has the advantage of ensuring the exact meaning is conveyed to the respondent and can lead to more reliable data collection. It also has the advantage of reaching those respondents who do not have online access. However, the CAPI interviews may

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lead to an interviewer effect where respondents do not reveal their true answers on sensitive topics such as income.

The online sample was the same survey but administered entirely on-line without an interviewer. This means there was no interviewer effect but the exact meaning may not be interpreted correctly. The sample may also include selection bias to a greater extent than CAPI. Applying a sampling approach that uses both of these methods ensures that these issues are balanced and a wide demographic is captured.

For non-domestic customers, the computer aided telephone interview (CATI) to online format was used. This is a mixture of an online survey format with telephone recruitment. The use of an online survey and CATI recruitment has the same advantages and disadvantages as the household online survey.

- **Results and Analysis**: The findings are presented in section 3 of this report. As well as information on acceptability the findings include sample representativeness, respondent view on service, bills and value for money and an analysis of the drivers of acceptability.

2.3 Presenting the Plan

The key business plan proposals were outlined in South Staffs business plan consultation included in the survey were linked to the outcomes identified by South Staffs Water. Each attribute included a description that was developed in consultation with South Staffs and aligned with the South Staffs Water business plan consultation that was run in parallel to the study.

The outcomes and identified service impacts identified were:

Table 2.1: Outcomes and Service Attributes

Outcome	Service Measure
Fair customer bills	Efficiency savings
	Increased business costs
Enhanced customer service	Enhanced customer service
Excellent water quality	Meeting water quality standards
Secure and reliable supplies	Providing sufficient supplies
	Interruptions to supply – reliable supplies
Environmentally responsible operations	Enhanced Metering
	Improving rivers and the environment

The survey included questions on two further options.

- Investing the merger savings: The proposed draft plan assumes that the savings generated by the merger are passed to customers are lower bills. The survey investigated customers' views on the merger savings and presented the following options:
    - No change to the proposed plan – the efficiency savings are passed onto customers as lower bills
    - Use money to help customers in poverty according to their need
    - Use money to repair the water supply pipes customers own

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Customers were also able to specify a further alternative. A 'don't know' option was also available.
- Introducing a social tariff.

The proposed draft plan was presented to customers in the form of an itemised bill that summarised the impact both before and after further detail was provided on the proposals. The bill impacts were tailored to the customer's bill by linking the bill value the respondent entered to a set of bill impacts expressed as a percentage. An interactive survey approach used to present the plan that allowed customers to consider their views and potentially change their answers as they read through the information.

2.4 Survey Design

The survey is designed to capture views on the individual parts of each plan, as well as the overall view of the whole plan. A draft survey was developed in consultation with South Staffs Water's Customer Challenge Group. The following table outlines the structure and content of the survey.

Table 2.2: Questionnaire description

Section	Structure
Section A: Introduction	This section has two purposes: (1) To confirm the respondents' eligibility to complete the survey. Those who are not South Staffs Water customers are excluded. (2) To determine the representativeness of the sample (such as age, occupation, etc)
Section B: Customer bills and Uninformed Acceptability	This section starts by asking respondents their views on the current level of the water bill including affordability and their high level preferences for future bills and service. The second part of the section introduced a high level summary of the proposed business plan and asks how acceptable this is prior to any detailed information being given.
Section C: Current Service Levels	This section asks respondents their views on the importance of difference activities, satisfaction with the current service and whether they have experienced any service issues.
Section D: Business Plan and Acceptability	This section asks respondents about the Acceptability of proposed draft plan. It outlines the current level of service and areas of proposed improvements associated with the proposed draft plan, grouped by Outcome. This includes both discretionary and non-discretionary elements. Each change is presented with associated bill change in ££ terms, and the respondent is asked to state whether they agree with each change. The section then questions if overall the proposed draft plan that the respondent is presented with is acceptable, very acceptable, unacceptable, or very unacceptable. It captures reasons why and whether the respondent considers the proposed draft plan to be value for money.

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Section	Structure
	Following the question on the proposed draft plan the survey explores the impact of other influences or potential changes on acceptability. These area are: • Choice relating to the investment of the savings generated by South Staffs Water and Cambridge Water merging together in April 2013. • Introducing a social tariff • The impact of a change in the sewerage bill The section concludes by asking the respondent whether they should be more or less investment in different areas of the plan.
Section E: Demographics	These questions are asked to gather information for potential explanatory variables for econometric analysis, such as the composition of the respondents' household. This section ends by asking respondents for feedback on the survey.

2.5 Pilot Study

A pilot survey was undertaken during the last week of August. The survey covered 100 households using an online approach. The pilot survey included a follow up question asking for customer feedback. A vast majority of customer either left no comment or a positive comment (82%). Other comments included comments on improving the language and changing information.

Key changes to the study included:

- Developing the survey to test how the acceptability changes when the survey is presented in both today's and future prices (i.e. with and without the impacts of inflation).
- Combining the fair customer bills and enhanced service impacts to reduce the number of tasks and information.
- Amending the range of bills shown for the question on the impact of the sewerage bill on acceptability to better reflect the proposals of the relevant sewerage companies (Anglian Water and Severn Trent Water).
- Adding information on the company's performance to reflect the information provided in South Staffs Water's Draft Business Plan consultation document.
- General review of the information and wording in the survey.

The pilot results suggested that whether a customer had a metered installed or not had an impact on the results. As a result a quota was added to the main survey to ensure that the respondents were representative and avoid this characteristic unduly influencing the results.

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2.6 Main Study: Final presentation of the plan

The final presentation of the plan is shown below:

Table 2.3: Outcomes and Service Attributes

Outcome	Service Measure	Bill impact
Fair customer bills & enhanced customer service	Fair customer bills & enhanced customer service	0.5%
Excellent water quality	Meeting water quality standards	0.5%
Secure and reliable supplies	Providing sufficient supplies	0.2%
	Interruptions to supply – reliable supplies	0.1%
Environmentally responsible operations	Enhanced Metering	0.1%
	Improving rivers and the environment	0.3%

Note: Bill impacts rounded to 1 decimal place

The bill impacts were shown in monetary terms by tailoring the impacts to the customer's current bill. The presentation represented an itemised customer bill and included the 0.6% reduction for the already agreed bill reduction in 2014 and inflation was forecast at 3%.

The impacts of investing the further proposals were shown as:

- Merger savings - 0.5%
- Social tariff – 1.9%

2.7 Main Study: Sampling and administration

The main survey was implemented with the following sampling approaches:

- **Domestic customers via CAPI**: This approach means that interviews are conducted in a person's home. The main survey for the household CAPI sample ran between the 5thSeptember and the 2nd October 2013. The target sample was 500 respondents. Respondents were offered a £5 voucher for taking part.

- **Domestic customers via online survey**: For the online household survey a questionnaire that was identical to the CAPI version was used. The main survey for the online sample ran between 7th September and 2nd October 2013. The target sample was 300 respondents. The online sample was selected from an online panel provided to FACTS International by an independent company. Although the online sample did not receive a direct incentive payment the provider used a credit based system that can be converted to rewards once enough points are accumulated.

- **Non-domestic customers via CATI to online:** The business customer survey was administered online with telephone recruitment. The main survey for the business sample ran between 10th September and the 4th October 2013 and targeted 200 businesses taken randomly from a databases provided by SSW. Businesses were offered a £10 incentive for taking part. The survey included the option for businesses to donate this incentive to charity.

The sample size was designed to ensure a robust sample across the whole of the South Staffs Water and the results within the two regions. The table below shows the breakdown of the target sample across the two regions.

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Table 2.4: Target sample size

	South Staffs Region	Cambridge Region	Total
Household CAPI	300	200	500
Household Online	200	100	300
Business	100	100	200

The key requirement for the sampling was to ensure that the samples were representative of the domestic and non-domestic customer bases. A set of target quotas were specified as a guide and the achieved samples are compared to these in Sections 3.1 and 3.2. For domestic customers the target quotas covered respondent gender, age, socio-economic group and metering. With the exception of metering the quota was based on 2011 census data. For non-domestic customers the target quotas were specified on the basis of (aggregated) industry classification. The industry classification was based on the Standard Industrial Code (SIC) information taken from 2012 ONS data on UK Business activity[5].

The fieldwork for the main survey was carried out in September 2013. Results are presented in Sections 3. Target sample sizes were achieved for the domestic and non-domestic samples with 841 household surveys taking place and 203 business responses.

CAPI Sampling points
The table below shows the CAPI sampling points.

Table 2.5: CAPI sampling points

Cambridge	South Staffs
Cambridge	Aldridge
Cherry Hinton	Bloxwich
Cottenham	Brownhills
Fulborne	Burntwood
Linton	Cannock
Melbourn	Kinver
Over	Lichfield
Ramsey	Shelfield
Sawston	Sutton Coldfield
Gamlingay	Tamworth
Great Gransden	Walsall
Royston	Wednesbury
Swavesey	
Willingham	

[5] Table A1.1

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3 Results

This section of the report presents the main results from both the household and business customer surveys. It covers the sample representativeness and respondent profile, views on bills and acceptability as well as analysis on the drivers affecting whether customer indicate the proposed draft plan is acceptable or not.

Overall target samples were achieved with 1044 customers sampled comprising 841 household customers and 203 business customers. 419 customers were based in the Cambridge Region and 625 customers were based in the South Staffs region.

Section 3.1and parts of sections 3.2 and 3.4 where appropriate present the results for the two different household sample modes whereas the remaining sections present combined household results. Full details for each survey mode are available in the annex.

3.1 Sample representativeness: Household

Random sampling was used and the resulting customer samples are compared against available population statistics, based on Census data for the South Staffs and Cambridge regions based on the local authorities and postcode areas covered. In general the sample is in line with the population statistics and the results can be considered representative.

Gender

Table 3.1 and Table 3.2 present the gender split for the household sample. We observe slightly over half of respondents were female in all the samples. Variations between samples and regions are small.

Table 3.1: Gender for each survey mode and region (percentage)

	Cambridge		South Staffs	
	CAPI (n= 210)	Online (n= 109)	CAPI (n=300)	Online (n=222)
Male	47	46	48	44
Female	53	54	52	56
Total	100	100	100	100

Table 3.2: Gender Combined (percentage)

	Cambridge (n=319)	Regional Population	South Staffs (n=522)	Regional Population	All regions (n=841)
Male	47	50	47	49	47
Female	53	50	53	51	53
Total	100	100	100	100	100

Age

Table 3.3 and Table 3.4 present the sample profiles for age. Overall there is good representation of all ages within the samples for both regions. The online sample is more likely to show differences from the population with a higher likelihood of capturing the lower age groups.

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Overall the samples are aligned with the population. The alignment is closer for the South Staffs region. The Cambridge region shows slight over sampling of the 30-44 age group and under sampling of the 65+ group.

Table 3.3: Age for each survey mode and region (percentage)

	Cambridge		South Staffs	
	CAPI (n= 210)	Online (n= 109)	CAPI (n=300)	Online (n=222)
18-29	23	21	18	30
30-44	32	38	27	31
45-64	28	34	35	22
65+	18	7	20	17
Refused	0	0	0	0
Total	100	100	100	100

Table 3.4: Age Combined (percentage)

	Cambridge (n=319)	Regional Population	South Staffs (n=522)	Regional Population	All regions (n=841)
18-29	22	24	23	21	23
30-44	34	27	29	26	31
45-64	30	30	29	32	29
65+	14	19	19	21	17
Refused	0	0	0	0	0
Total	100	100	100	100	100

Socio-Economic Group

Table 3.5 and Table 3.6 present the sample profile for the respondent's socio economic group. Overall the profiles are broadly aligned with the population statistics.

Table 3.5: SEG for each survey mode and region (percentage)

	Cambridge		South Staffs	
	CAPI (n= 210)	Online (n= 109)	CAPI (n=300)	Online (n=222)
AB	36	53	25	26
C1	24	25	21	30
C2	18	6	20	18
DE	22	16	34	27
Total	100	100	100	100

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Table 3.6: SEG Combined (percentage)

	Cambridge (n=319)	Regional Population	South Staffs (n=522)	Regional Population	All regions (n=841)
AB	42	38	25	18	32
C1	24	29	25	29	25
C2	14	17	19	23	17
DE	20	16	31	30	27
Total	100	100	100	100	100

Metering

Table 3.7 reports the percentage of sampled customers that are fitted with a water meter.

Table 3.7: Metered customer (percentage)

	Cambridge (n=319)	Regional Population	South Staffs (n=522)	Regional Population	All regions (n=841)
Yes	64	68	31	30	44
No	33	32	64	70	52
Don't know	4	0	4	0	4
Total	100	100	100	100	100

3.2 Sample profile: Household

This section presents the findings for a variety of socio-economic characteristics.

Employment

The overall results for employment are shown in Table 3.8 below. The table shows that just under half of respondents were employed full time. The samples cover a wide representation of other situations including unemployed and unable to work due to sickness or disability.

The breakdown of the sample between the different survey modes is includes in the annex. Overall the results are similar for survey modes although the CAPI survey captured more respondents that were unemployed.

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Table 3.8: Employment Overall (percentage)

	Cambridge (n=319)	South Staffs (n=522)	All regions (n=841)
Employed full-time (30+ hrs)	45	45	45
Employed part-time (up to 30 hrs)	10	14	13
Looking after the home / children full-time	8	5	6
Retired	18	18	18
Self-employed	7	4	5
Student	3	2	3
Unable to work due to sickness or disability	3	4	4
Unemployed - other	1	1	1
Unemployed - seeking work	3	5	4
Other (please specify)	1	1	1
Prefer not to say	0	1	0
Total	100	100	100

Education

The highest level of education obtained by a respondent is shown in Table 3.9 and Table 3.10. A broad spread of educational attainments are represented which has potential implications for earnings. The results show that the Cambridge sample has more respondents with a degree, higher degree or professional qualifications whereas the South Staffs region has more respondents with NVQs or 'O' Level/GCSEs. This most likely reflects genuine differences between the regions, shown in the socio-economic group profile, as opposed to sampling inconsistencies.

When looking at survey modes the online sample captures more respondents with 'A' levels, degrees or professional qualifications.

Table 3.9: Education for each survey mode and region (percentage)

	Cambridge		South Staffs	
	CAPI (n= 210)	Online (n= 109)	CAPI (n=300)	Online (n=222)
Professional qualifications (teacher, doctor, dentist, architect, engineer, lawyer, etc.)	8	10	2	10
Higher degree (e.g. MA, PhD, PGCE, post graduate certificates and diplomas)	12	18	3	6
First degree (e.g. BA, BSc)	15	26	3	18
A levels / AS level / higher school certificate	7	17	9	15
NVQ (Level 1 and 2). Foundation / Intermediate / Advanced GNVQ / HNC / HND	10	12	15	18
O levels / CSEs / GCSEs (any grades)	16	6	25	22
Other qualifications (e.g. City and Guilds, RSA/OCR, BTEC/Edexcel)	11	7	11	9
No qualifications	18	2	20	3
Prefer not to say	3	2	12	0
Total	100	100	100	100

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Table 3.10: Education Overall (percentage)

	Cambridge (n=319)	South Staffs (n=522)	All regions (n=841)
Professional qualifications (teacher, doctor, dentist, architect, engineer, lawyer, etc.)	9	5	7
Higher degree (e.g. MA, PhD, PGCE, post graduate certificates and diplomas)	14	4	8
First degree (e.g. BA, BSc)	19	9	13
A levels / AS level / higher school certificate	11	12	11
NVQ (Level 1 and 2). Foundation / Intermediate / Advanced GNVQ / HNC / HND	10	16	14
O levels / CSEs / GCSEs (any grades)	12	24	19
Other qualifications (e.g. City and Guilds, RSA/OCR, BTEC/Edexcel)	10	10	10
No qualifications	12	13	13
Prefer not to say	3	7	5
Total	100	100	100

Income

Table 3.11 and Table 3.12 present the household income profile for the surveys. Again there is good coverage of households of all income levels for both regions. Higher earners are more prevalent in the Cambridge sample which could influence acceptability. Again this is expected to reflect genuine differences between the regions. Around a quarter of respondents chose not to disclose their incomes creating uncertainty around the exact income distributions sampled.

When looking at survey mode we observe that the respondents are more likely to refuse to answer the question on household income in the CAPI survey. This is likely to be due to an 'interview effect' where respondents are reluctant to share sensitive information with an interviewer.

Table 3.11: Household Income (before tax) for each survey mode and region

	Cambridge		South Staffs	
	CAPI (n= 210)	Online (n= 109)	CAPI (n=300)	Online (n=222)
Up to £539 per month (Up to £6,499 per year)	2	1	4	4
£540 - £789 per month (£6,500 - £9,499 per year)	5	6	9	5
£790 - £1289 per month (£9,500 - £15,499 per year)	6	8	10	16
£1290 - £2079 per month (£15,500 - £24,999 per year)	7	15	10	27
£2080 - £3329 per month (£25,000 - £39,999 per year)	14	20	14	25
£3330 - £4999 per month (£40,000 - £59,999 per year)	14	19	4	9
£5000 - £7499 per month (£60,000 - £89,999 per year)	7	16	2	2
£7500 and over per month (£90,000 and over per year)	2	5	1	1
Don't know	7	3	11	1
Prefer not to say	36	8	35	12
Total	100	100	100	100

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Table 3.12: Household Income Overall

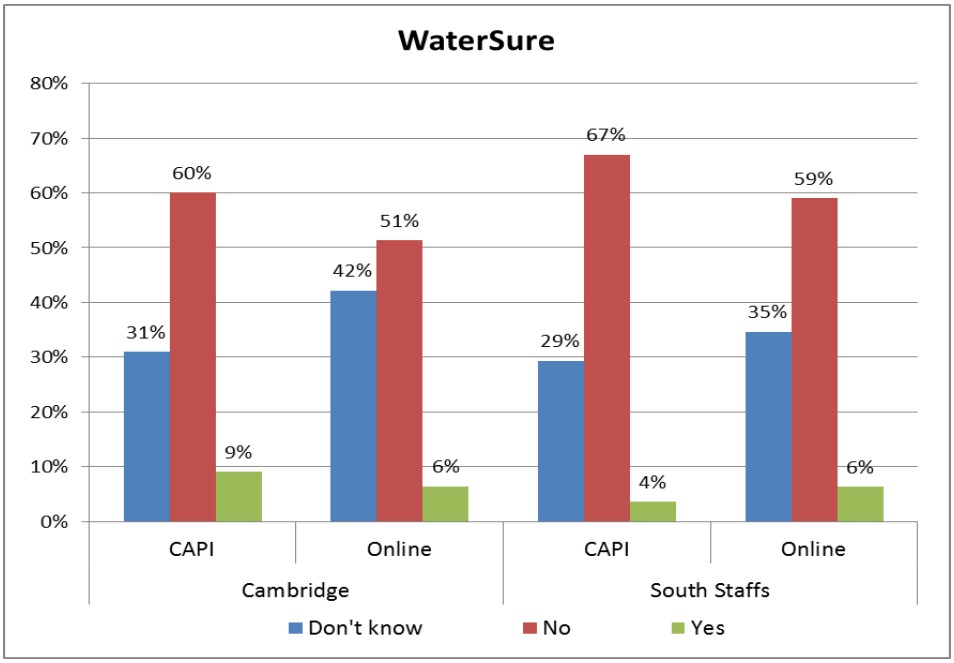
	Cambridge (n=319)	South Staffs (n=522)	All regions (n=841)
Up to £539 per month (Up to £6,499 per year)	2	4	3
£540 - £789 per month (£6,500 - £9,499 per year)	5	7	6
£790 - £1289 per month (£9,500 - £15,499 per year)	7	12	10
£1290 - £2079 per month (£15,500 - £24,999 per year)	9	17	14
£2080 - £3329 per month (£25,000 - £39,999 per year)	16	18	17
£3330 - £4999 per month (£40,000 - £59,999 per year)	16	7	10
£5000 - £7499 per month (£60,000 - £89,999 per year)	10	2	5
£7500 and over per month (£90,000 and over per year)	3	1	2
Don't know	6	7	6
Prefer not to say	27	25	26
Total	100	100	100

WaterSure

Figure 3.1 shows the number of WaterSure respondents surveyed. The WaterSure scheme is available to customers with a water meter and allows eligible customers to have their bills capped. Eligible customers include those who receive some form of income support and either have 3 or more children or have a medical condition which requires significant additional use of water.

The surveys have successfully targeted customers on the WaterSure tariff within all modes and regions.

Figure 3.1: WaterSure respondents



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Long-term limiting illness

Respondents were asked whether any members of their household have a long-term illness, health problem or disability that limits their daily activities or the work they can do. The results are shown in Table 3.13 below. As it is possible for both a respondent and a member of their household to meet this definition the respondent could choose more than one category the results sum to more than 100%.

The sample findings below have been compared to the Census 2011 data on a long-term health problem or disability. This data shows that 19% of customers in the South Staffs region and 14% of customers in the Cambridge region reported having a health or disability issue that limits day-to-day activities either a lot or a little.

Table 3.13: Members of household with a long-term illness, health problem or disability Overall

	Cambridge (n=319)	South Staffs (n=522)	All regions (n=841)
Yes Self	13	10	11
Yes Other	4	5	5
No	84	85	85
Don't Know/Refused	0	1	0

3.3 Sample representativeness: Business

As with the household survey, random sampling was used for the business customer survey. The resulting sample is compared against available population statistics for the South Staffs Water customer base.

Industrial classification

Table 3.14 details the proportion of respondents by industry type and Table 3.15 shows these results summarised and compared to the regional statistic. Overall a good mix of industrial classifications has been achieved. Businesses tend to over classify themselves are other which affects the comparison. The Cambridge sample was more limited and excluded those respondents that had completed the Willingness to Pay research in the last two months. As a result the sample for the Cambridge Region is less aligned to the population statistics.

Table 3.14: Industrial Classification (percentage)

	Cambridge (n=100)	South Staffs (n=103)
Accommodation and food service activities	4	4
Activities of extraterritorial organizations and bodies	1	0
Administrative and support service activities	3	0
Agriculture, Forestry and Fishing	15	4
Arts, entertainment and recreation	12	5
Construction	0	2
Education	5	9
Electricity, gas, steam and air	0	1
Finance and insurance activities	2	3
Human health and social work activities	2	1
Information and Communication	0	1

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Manufacturing	7	17
Other	14	17
Other service activities	11	8
Professional, scientific and technical activities	1	0
Public administration and defence; compulsory social security	4	1
Real estate activities	4	2
Transport and storage	0	3
Water supply, sewerage, waste management & remediation activities	0	2
Wholesale and retail trade; repair of motor vehicles &motorcycles	15	21
Total	100	100

Table 3.15: SIC grouped

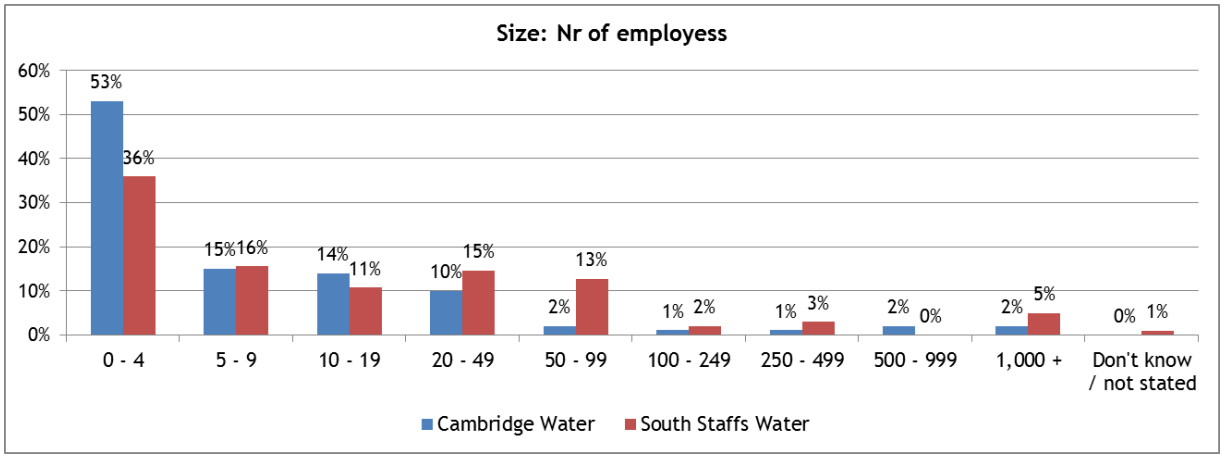
	Cambridge		South Staffs	
	Sample	Quota	Sample	Quota
Agriculture, forestry and fishing	15	5	4	6
Construction/Manufacturing/Production	7	15	21	19
Service industries including public sector	15	35	11	18
Wholesale and retail trade	15	15	21	21
Other activities	48	30	43	26
Total	100	100	100	100

SIC Source: Office of National Statistics - UK Business activity, size and location, 2012 Table A1.1

Number of employees

In line with expectations we observe the greatest representation for smaller sized companies in both regions, however all scales of business are still included.

Figure 3.2: Organisation size



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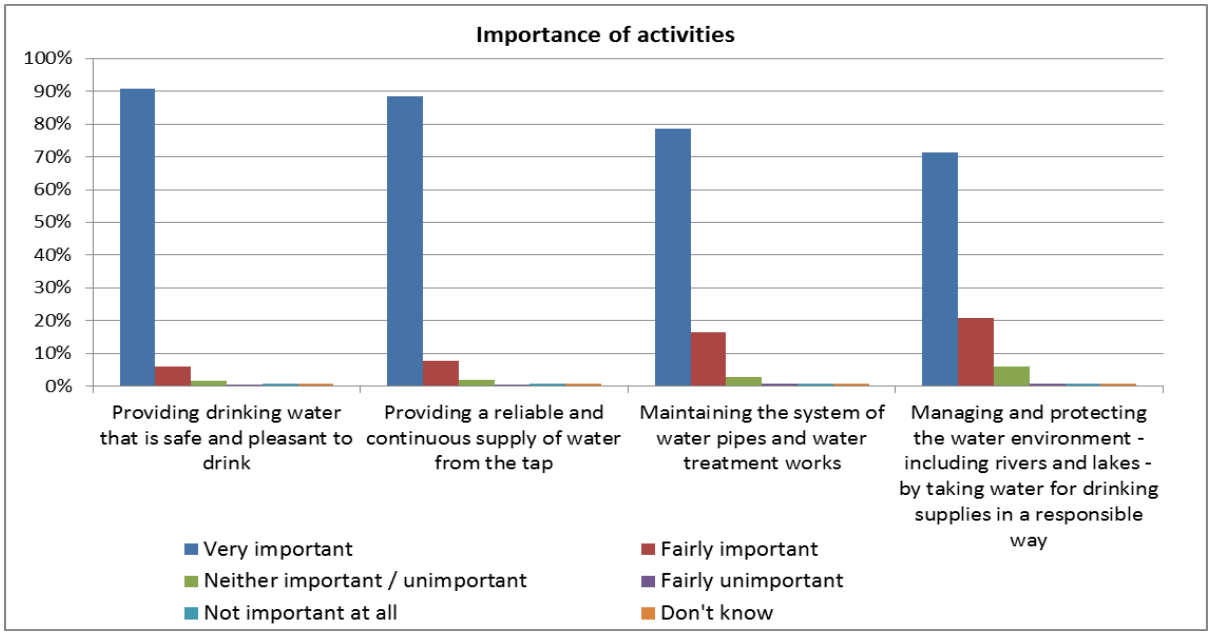
3.4 Perceptions of Service Levels

The survey included some questions on the existing service levels. These questions aimed to get respondents thinking about the provision of water. Questions included the importance of difference activities, satisfaction with the current service and whether they have experienced any service issues.

3.4.1 Importance of activities

Figure 3.3 presents customers views on the importance of the key activities that South Staffs Water undertake. All activities are considered very or fairly important by a majority of respondents.

Figure 3.3: Importance of activities



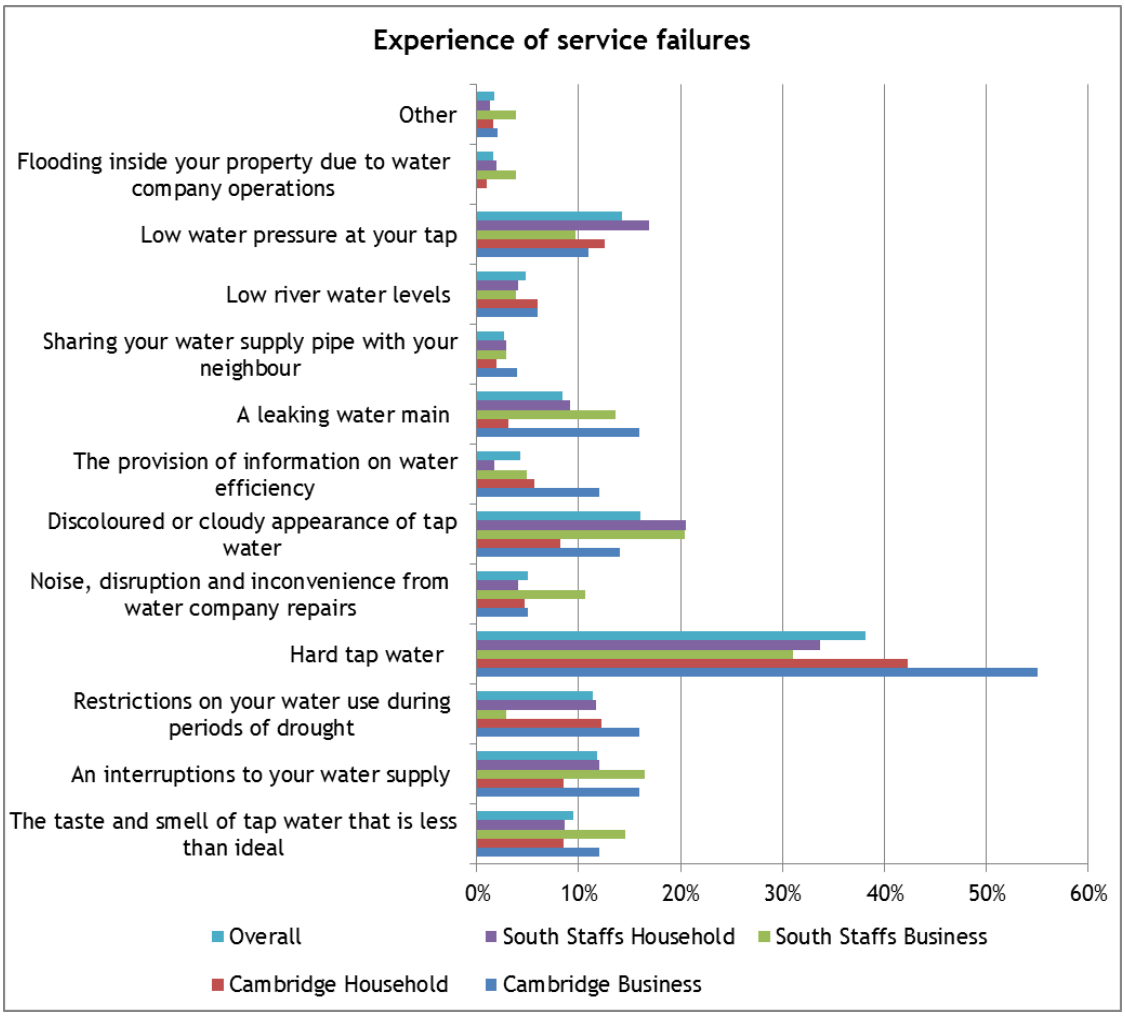
Experience

Figure 3.4 shows how respondents experience change across the survey modes and by region. The most common service failure experienced by all groups was hard water. Around 1 in 5 South Staffs respondents had experienced discoloured tap water which may raise its relevance to acceptability levels within the sample.

In general businesses were more likely to report experience of service issues.

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Figure 3.4: Experience of service failures

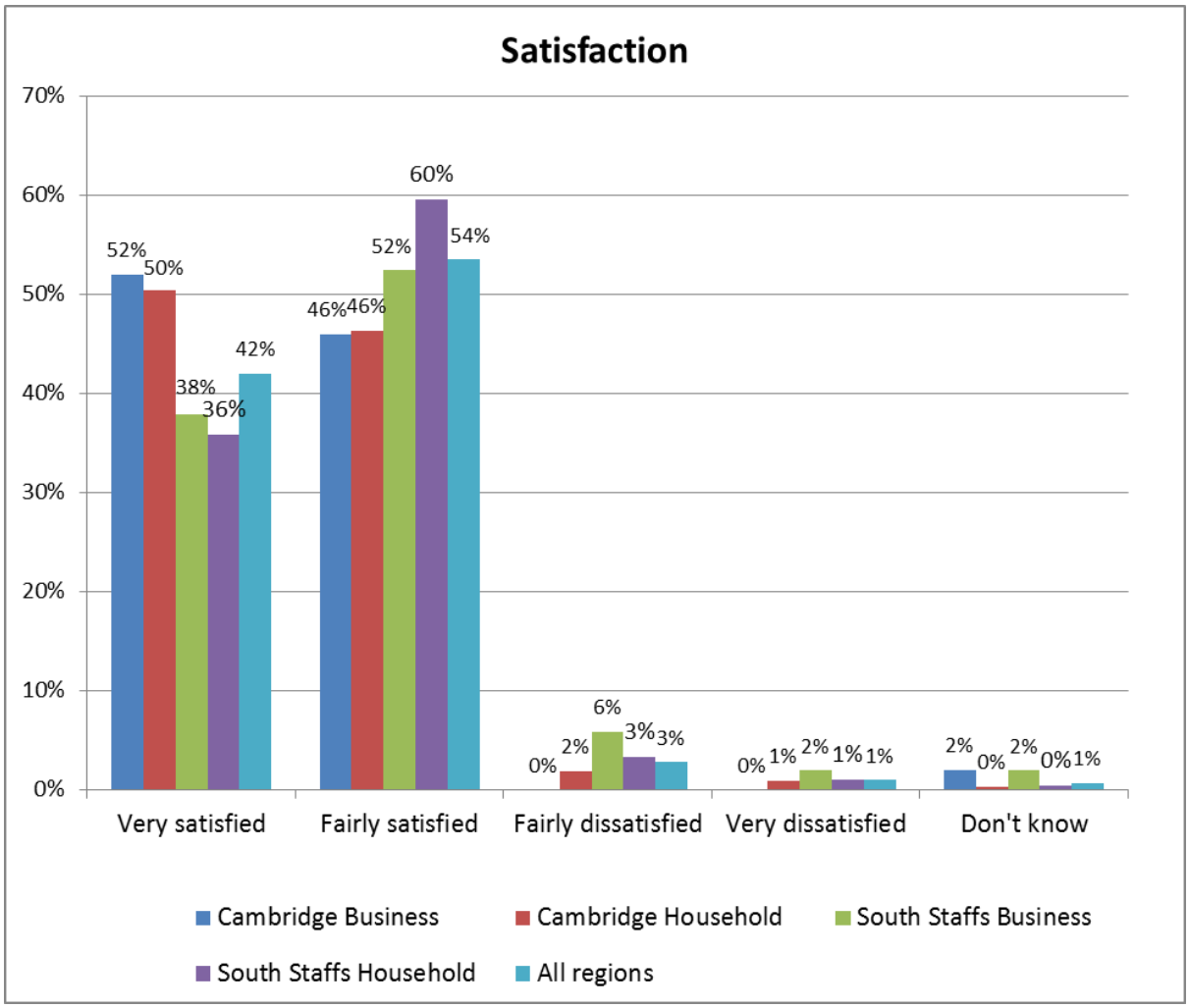


Customer Satisfaction

Figure 3.5 presents the level of customer satisfaction with the current level of service. While there are some variations across the regions the consistent message is that customers are broadly satisfied with the service they receive.

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Figure 3.5: Customer satisfaction



Depending on their answer to the above questions customers were asked their reasons for being satisfied or dissatisfied. The reasons for being satisfied or dissatisfied are presented in the tables below. The respondents who answered 'don't know' were not asked these questions.

While there are subtle differences between the samples, customers are most commonly satisfied because they have not experienced any problems (33%), find the service reliable (25%) and drinking water is good quality and pleasant to drink (23%).

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Table 3.16: Reasons for satisfaction (percentage)

	Cambridge		South Staffs		All regions (n=1996)
	Business (n=196)	Household (n=618)	Business (n=186)	Household (n=996)	
Drinking water supplies are reliable with very few interruptions	28	24	27	24	25
Impacts on the water environment (rivers, lakes, and coastal waters) are well-managed	6	3	5	3	4
It is good value for money	6	11	6	8	9
Not experienced any problems with water services	34	34	34	33	33
Tap water is good quality and pleasant to drink	16	23	17	27	23
Your water company deals with customer queries or complaints efficiently	9	4	7	3	4
Don't know	1	1	2	1	1
Other	0	0	1	0	0
Total	100	100	100	100	100

Note: Sample sizes reflect that respondents answering the question gave two reasons for stating that the proposed draft plan was acceptable.

Those customers who were not satisfied with the current level of service were asked to give two reasons for this. Only 39 respondents answered this question in total, none of which came from the Cambridge business sample. As such the numbers behind the percentages are small but value for money appeared to be the most common reason for dissatisfaction.

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Table 3.17: Reasons for dissatisfaction (percentage)

	Cambridge		South Staffs		All regions (n=78)
	Business (n=0)	Household (n=18)	Business (n=16)	Household (n=44)	
Drinking water supplies are not reliable and there are too many interruptions	0	0	0	7	4
Have experienced problems with water supply	0	17	0	9	9
Impacts on the water environment (rivers, lakes) are not well-managed	0	6	0	7	5
It is poor value for money	0	28	25	36	32
Tap water is unpleasant to drink	0	17	6	20	17
Your water company does not deal with customer queries and complaints effectively	0	11	19	5	9
Other (please specify)	0	17	31	14	18
Don't know	0	6	19	2	6
Total	0	100	100	100	100

Note: Sample sizes reflect that respondents answering the question gave two reasons for stating that the proposed draft plan was acceptable.

3.5 Views on Water Bills

This section presents the finding for the question on the respondent's water bill. It covers bill amounts and certainty, affordability and views on current and future bills.

Bill levels and certainty

Table 3.18 and Table 3.19 show the water bill that respondents reported in the study.

In the household survey those respondents answering 'don't know' were shown figures relating to the average bill in the remainder of the survey. This amount was varied according to region and whether the customer was metered or not.

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Table 3.18: Household Water only bill (percentage)

	Cambridge (%)	South Staffs (%)
Less than £100 per year	10	3
£100 - £150 per year	14	13
£151 - £200 per year	7	21
£201 - £250 per year	5	12
£251 - £300 per year	4	8
£301 - £350 per year	3	4
£351 - £400 per year	1	3
£401 - £450 per year	2	1
£451 - £500 per year	1	1
£501 - £600 per year	1	1
over £600 per year	0	1
Don't know	53	31

Table 3.19: Business water only bill (percentage)

	Cambridge (%)	South Staffs (%)
less than £250 per year	52	38
£250 to £499 per year	24	24
£500 to £1,000 per year	7	6
£1,000 to £4,999 per year	10	20
£5,000 to £9,999 per year	5	1
£10,000 to £24,999 per year	0	5
£25,000 to £49,999 per year	1	3
£50,000 to £99,999 per year	1	1
more than £500,000 per year	0	2
Total	100	100

Those respondents that could indicate an exact figure or a range for their bill were asked about the certainty of this figure. The findings are summarised in Table 3.20 below and show that a majority of respondents were either very or fairly certain.

Table 3.20: Certainty of bills levels (percentage)

	Cambridge		South Staffs		All Regions (n=714)
	Business (n=100)	Household (n=152)	Business (n=103)	Household (n=359)	
Very certain	46	38	38	23	32
Fairly certain	47	49	50	58	53
Not very certain	6	13	9	17	13
Very uncertain	1	1	3	2	2
Total	100	100	100	100	100

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Views on current bill and difficulty paying bill

Respondents were asked their views on their existing bill and household respondents were asked whether they had any difficulty paying their bill. The results are shown in Table 3.21 and Table 3.22 and show that customers believe their bill to be either about right or slightly too much. Customers in the Cambridge Region are more likely to think that their bill is about right. The differences in between the two regions are likely to reflect the differing socio-economic characteristics.

Table 3.21: Views on current bill amount (percentage)

	Cambridge		South Staffs		All Regions (n=1044)
	Business (n=100)	Household (n=219)	Business (n=103)	Household (n=522)	
Too little	2	1	1	0	1
About right	79	72	58	54	62
Slightly too much	17	23	24	32	27
Far too much	2	5	17	14	10
Total	100	100	100	100	100

Table 3.22 shows that a majority of respondents report that they do not have a problem paying their bill, however, the sampling has captured respondents that do have difficulties with 1 in 4 in the South Staffs region either sometimes or always paying the bill late. This figure is lower for the Cambridge region at 1 in 10 households.

Table 3.22: Difficulty paying bill (percentage)

	Cambridge (n=319)	South Staffs (n=522)	All regions (n=841)
I do not have any problem paying my bill	89	75	80
It is difficult to pay my bill and I sometimes pay it late	11	22	18
It is difficult to pay my bill and I never pay it on time	1	3	2
Total	100	100	100

Views on future bills and service

Table 3.23 shows respondents' views on future bill and service levels. This question was included to start respondents thinking about the connection between the two. A majority of respondents have indicated that they would like bills and service level to remain unchanged whereas 1 in 3 respondents in the Cambridge region would like to see service improve with the associated bill change. The corresponding figure is 1 in 4 for the South Staffs region. Very few customers would like to see bills lowered if it also means a deterioration to service levels.

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Table 3.23: Views on future bills and service (percentage)

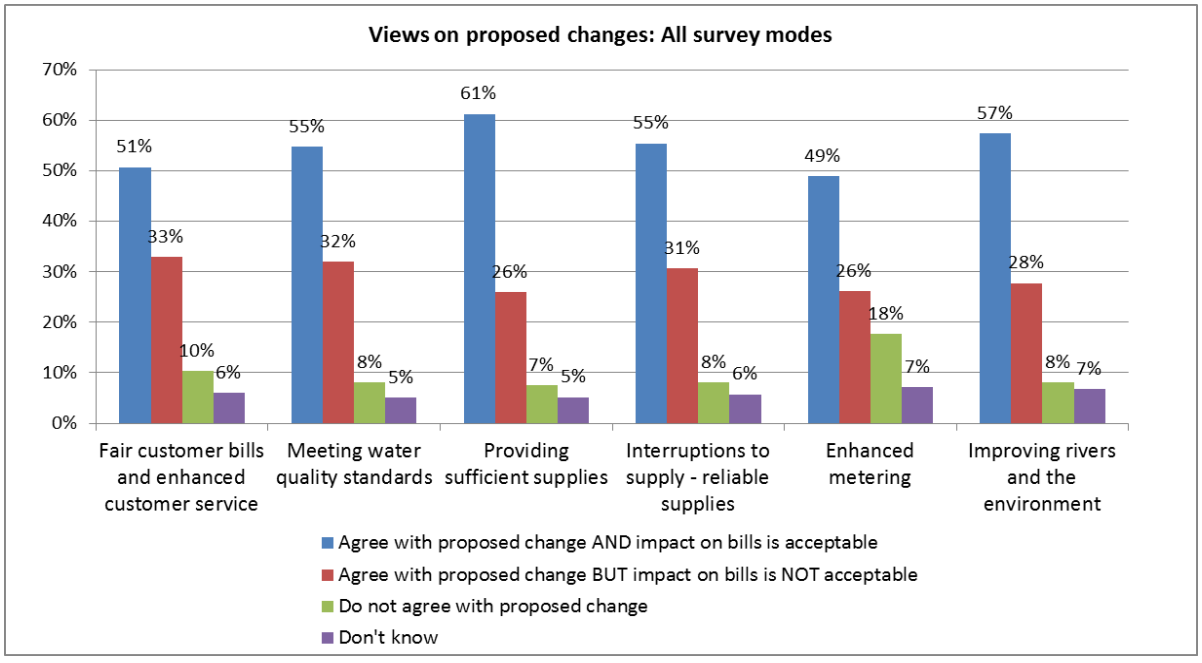
	Cambridge		South Staffs		All Regions (n=1044)
	Business (n=100)	Household (n=219)	Business (n=103)	Household (n=522)	
Bills decrease by a small amount and services deteriorate	2	1	4	4	3
Bills remain the same and service levels unchanged	65	64	70	74	70
Bills increase by a small amount and services improve	33	34	26	23	28
Total	100	100	100	100	100

3.6 Views on Acceptability of Components of the Plan

Figure 3.6 below shows the respondent's views on the different components of the proposed draft plan. Although the results vary across proposals the findings show that a majority of respondents agree with the proposed changes. However, between 26%-33% would like to see the proposed changed delivered for a lower bill impact. Providing sufficient supplies receives the most support given the proposed bill impact.

The numbers of respondent that do not agree with the changes is consistently low (<10%) across the business plan with the exception of enhanced metering where 18% of respondents disagree with the proposal.

Figure 3.6: Views on proposed changes

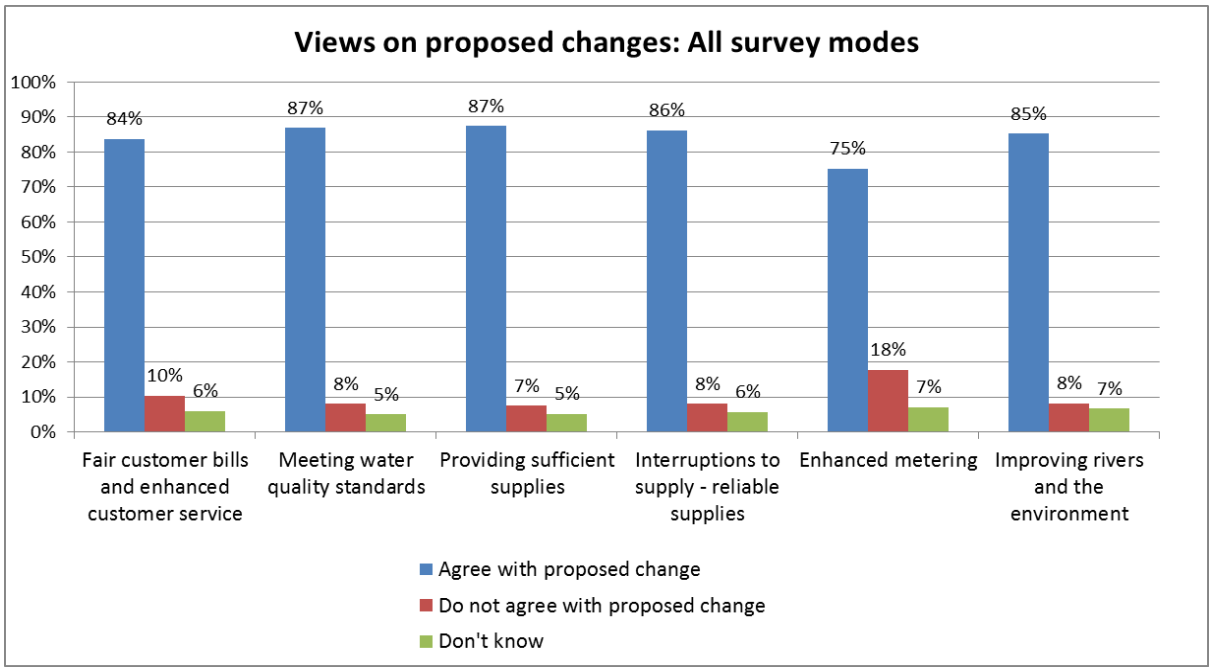


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Grouping into Agree or Do Not Agree

Grouping into 'agree' and 'do not agree' with proposed changes shows widespread support for the changes.

Figure 3.7: Views on proposed changes - grouped answers



3.7 Overall Views on Acceptability

The study was designed to collect customers' uninformed initial views on acceptability and their informed views once the details of the proposed draft plan had been shared. This section presents the findings for both of these questions.

Both the uninformed and informed acceptability questions were tested for both today's (real) and future prices (i.e. nominal prices with a forecast of inflation explicitly included). The results also need to be weighted to reflect:

- The composition of household and business customers within each region when the results are collated at a regional level; and
- The proportion of customers in each region when the results are collated at a company level.

To address the points raised above we first present unweighted uninformed and informed results in today's prices. We then reweight the informed results to be representative of the whole of South Staffs Water's customer base. These results are presented for when respondents were shown both today's and future prices. Finally, we consider the results based on today's prices or future prices.

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Uninformed Results

The uninformed results are presented in Figure 3.8 and Figure 3.9 below and show that there is a high level of uninformed acceptability for the proposed draft plan. The results are summarised as Acceptable versus Not Acceptable in Figure 3.9.

Overall 83% of respondents find the proposed draft plan to be acceptable this rises to 90% in the Cambridge region and is slightly lower at 78% in the South Staffs region.

Figure 3.8: Uninformed acceptability

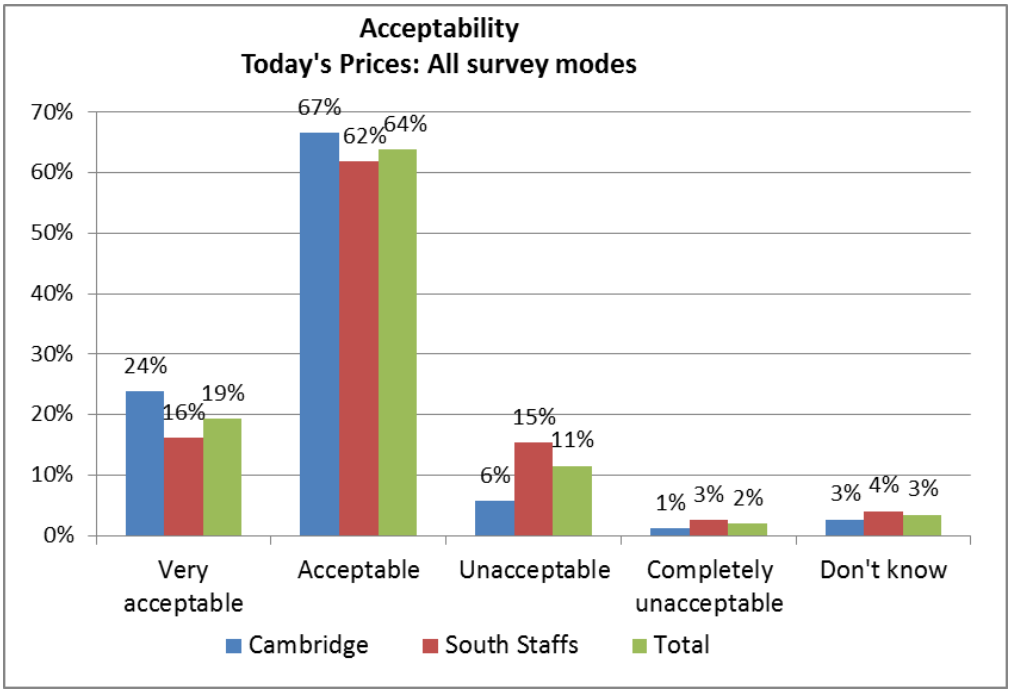
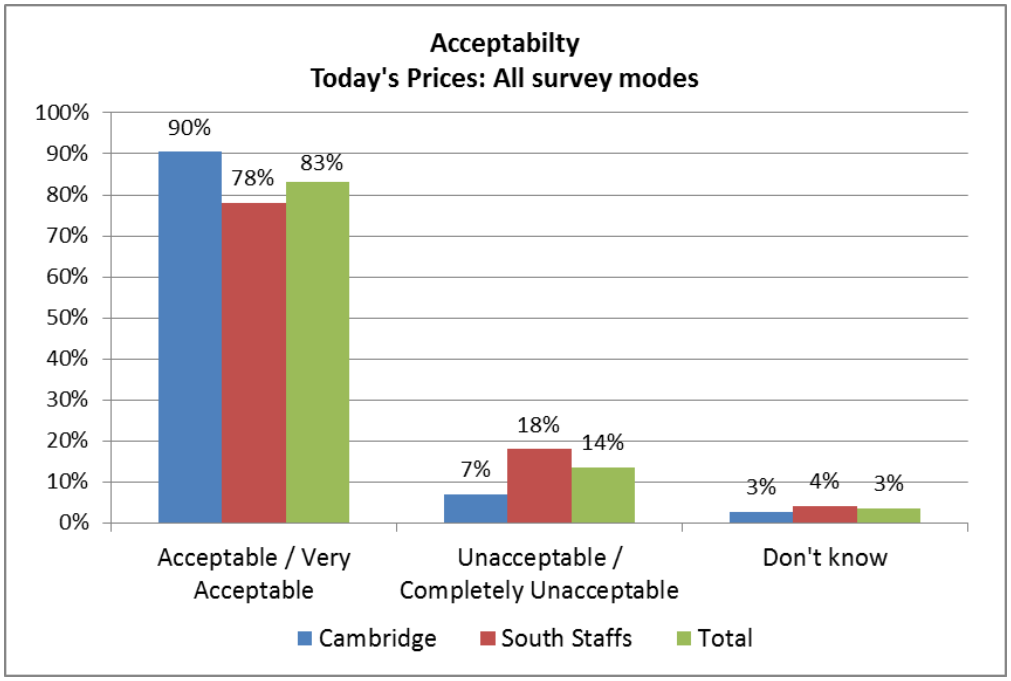


Figure 3.9: Uninformed acceptability - grouped



The results are shown broken down for households and businesses below.

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Overall the results show more uncertainty for businesses this appears to be due to businesses in the South Staffs Region being less likely to indicate that the plan is acceptable. The results are broadly similar for households and businesses in the Cambridge region although households are more likely to indicate that the plan is very acceptable than businesses.

Figure 3.10: Household Uninformed Acceptability

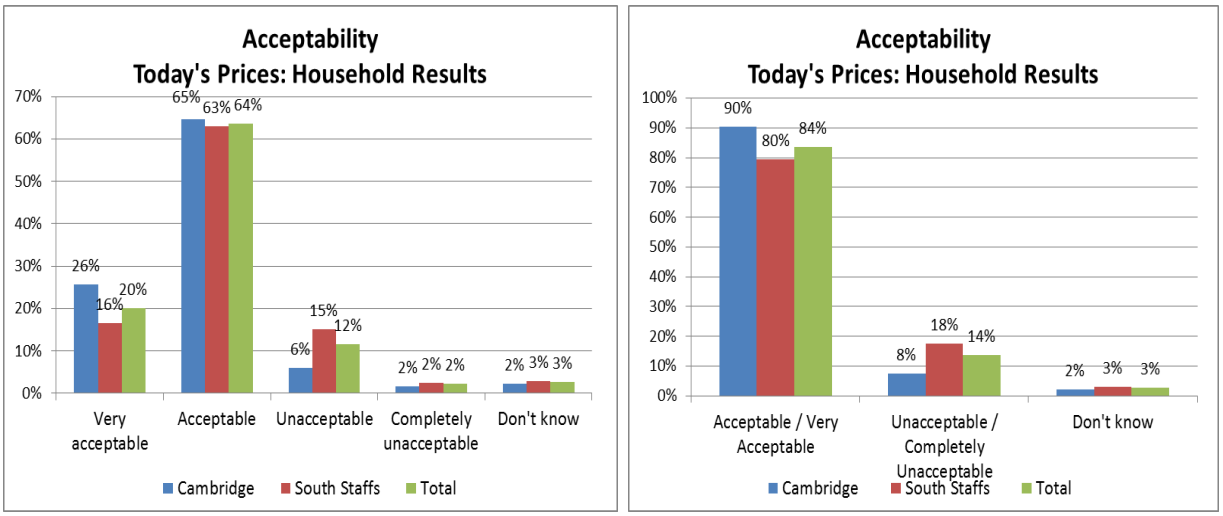
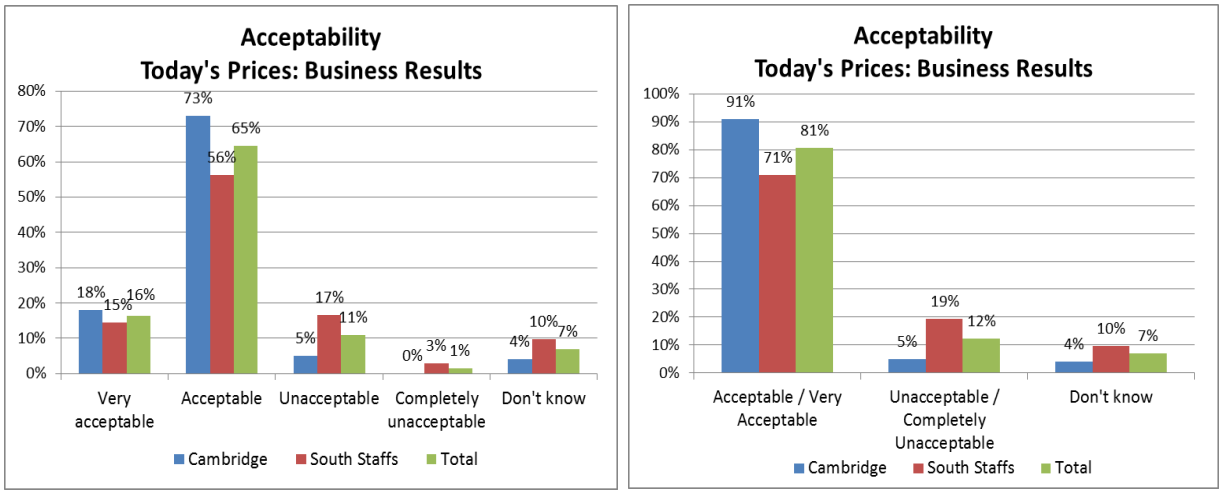


Figure 3.11: Business Uninformed Acceptability



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Unweighted Informed Results

The informed results are presented in Figure 3.12 and Figure 3.13 below. Comparing the findings to the uninformed results shows that overall there has been some movement between categories but the level of acceptability is slightly higher at 84%. In line with expectation the numbers choosing 'don't know' have decreased. Examining the results at a regional level shows that the level of acceptability has decreased in the Cambridge region but improved in the South Staffs region. In both regions respondents have moved to the acceptable category from the very acceptable category.

Figure 3.12: Informed acceptability

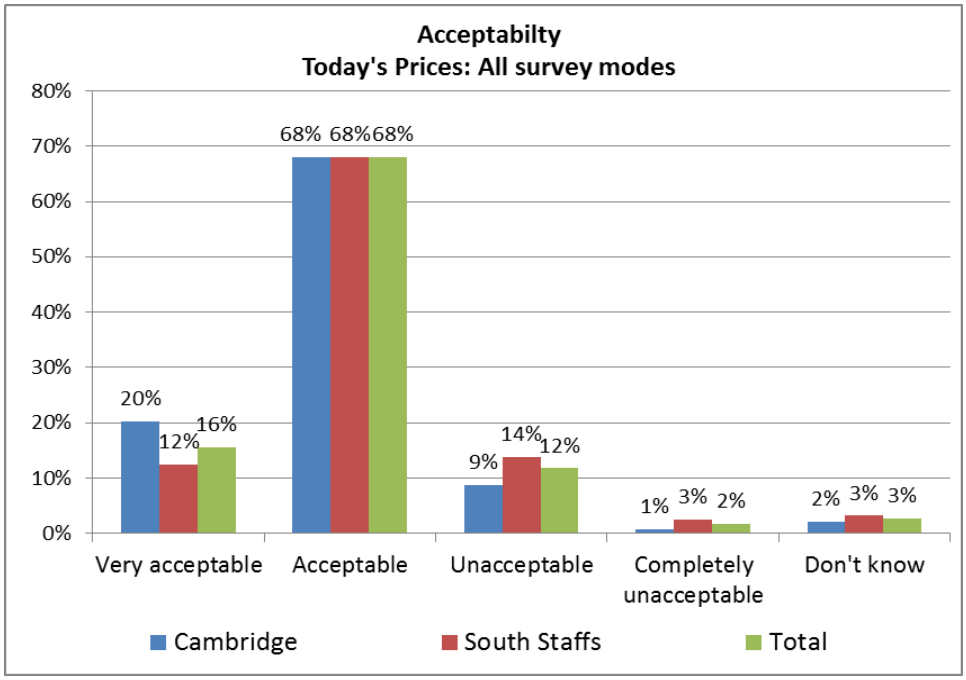
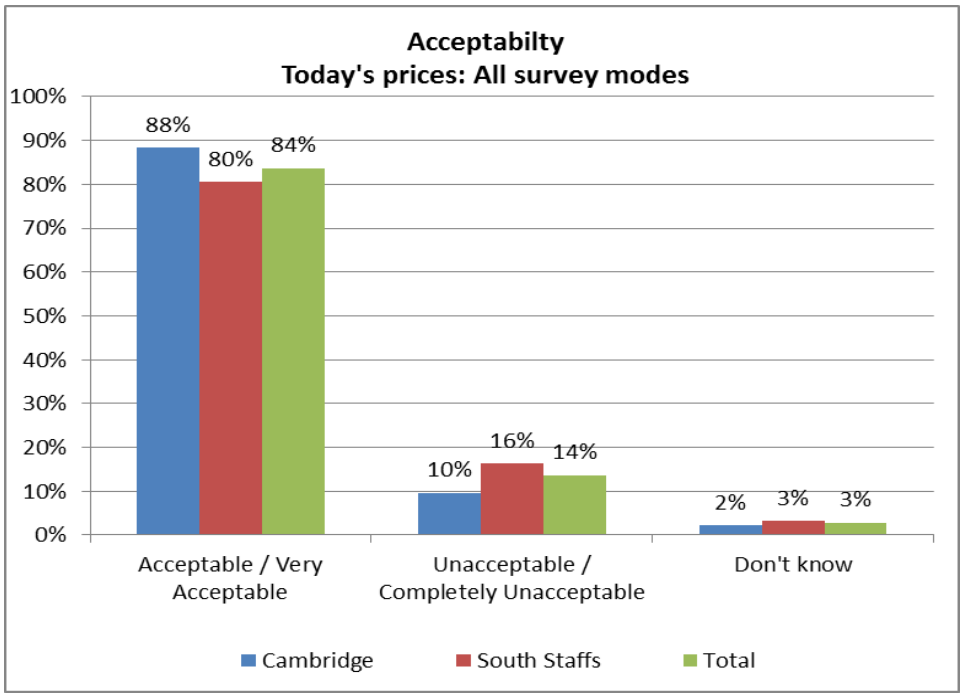


Figure 3.13: Informed acceptability - grouped

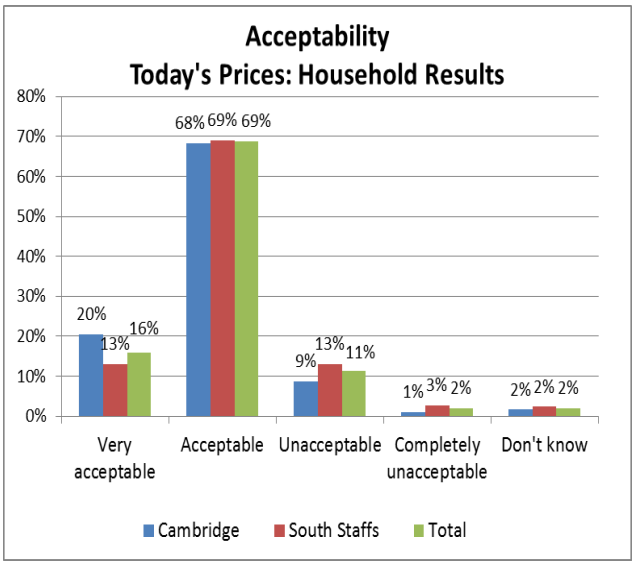


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When broken down into household and business the results show that households are more accepting that businesses with businesses still more likely to choose the 'don't know' category.

Comparing the results to the uninformed results shows that both the household and business results reflect the overall trend of a reduction in acceptability in the Cambridge region and an increase in the South Staffs region.

Figure 3.14: Household informed acceptability



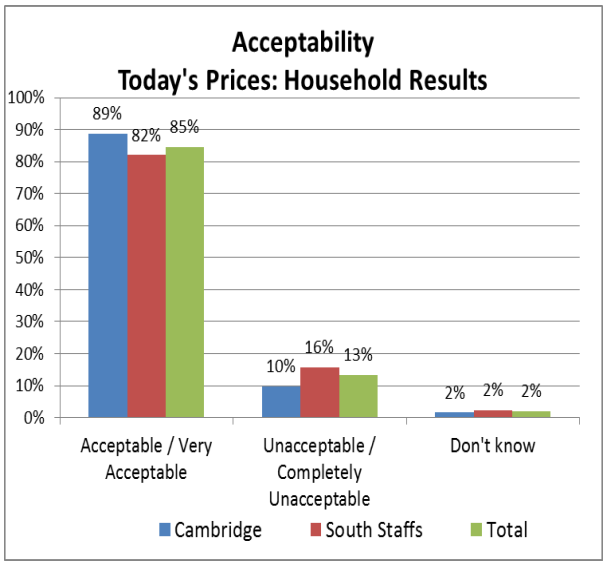
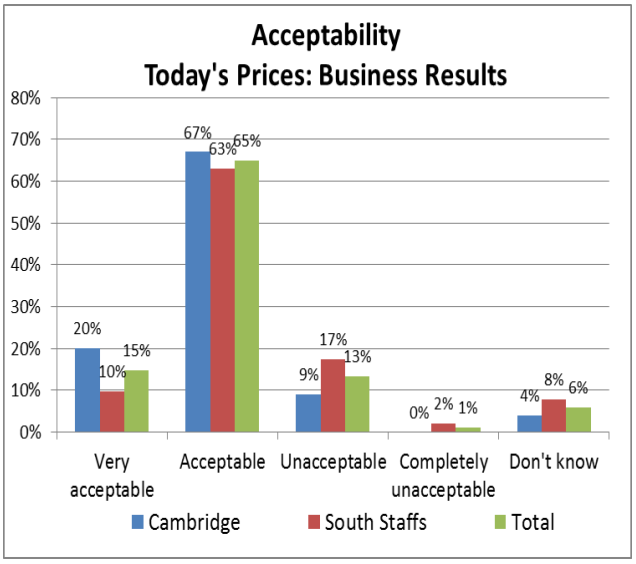
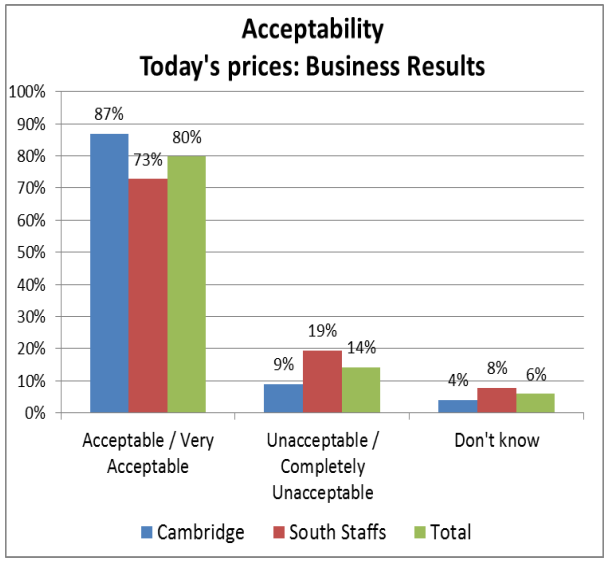


Figure 3.15: Business informed acceptability





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Weighted Informed Results

The informed results are weighted to be representative of the South Staffs Water's customer base. The proportions of respondents captured in the survey are shown in the table below.

Sample size distribution by survey mode and region (percentage)

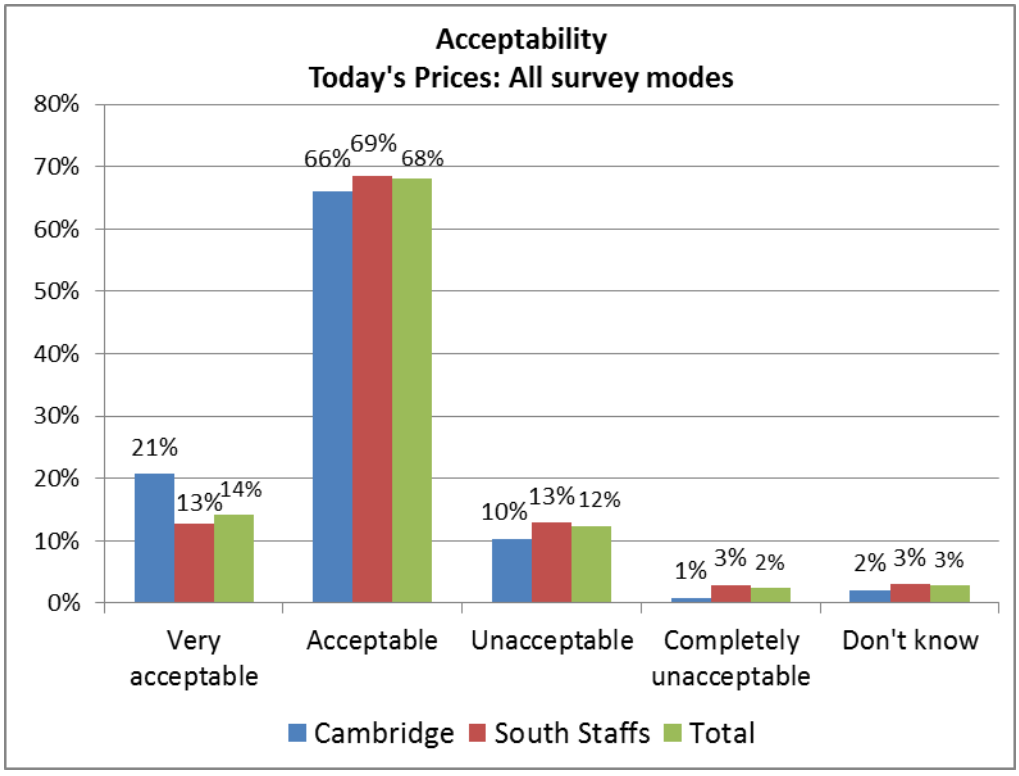
	Cambridge Water	South Staffs Water	Total
Business	10	10	19
CAPI	20	29	49
Online	10	21	32

The sample distribution was selected to ensure both Cambridge customers and business views are represented in the findings and that the results for both regions can be considered independently. The results have been reweighted to reflect the actual regional differences for the acceptability. The results of the two household survey modes were first averaged to avoid biasing one survey mode in the weighted sample. The results were then weighted using the proportions shown below:

- 92% household & 8% business customers in the Cambridge Region
- 94% household & 6% business customers in the South Staffs Region
- 81% South Staffs Region and 19% Cambridge Region

Figure 3.16 and Figure 3.17 present the weighted results. Weighting does not change the results substantially. Overall the level of acceptability is shown as 82% this is slightly lower than the unweighted results. At a regional level this is 87% for the Cambridge region which is a slight reduction and 81% for the South Staffs region which is a slight increase.

Figure 3.16: Weighted informed acceptability today's prices



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Figure 3.17: Weighted informed acceptability today's prices - grouped

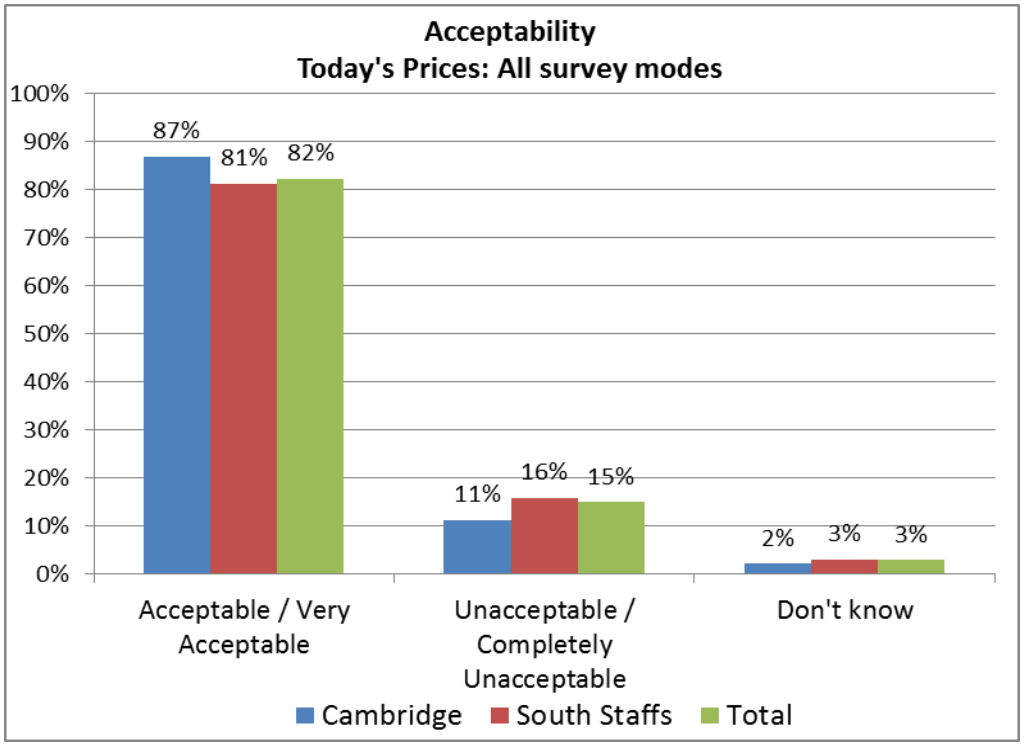
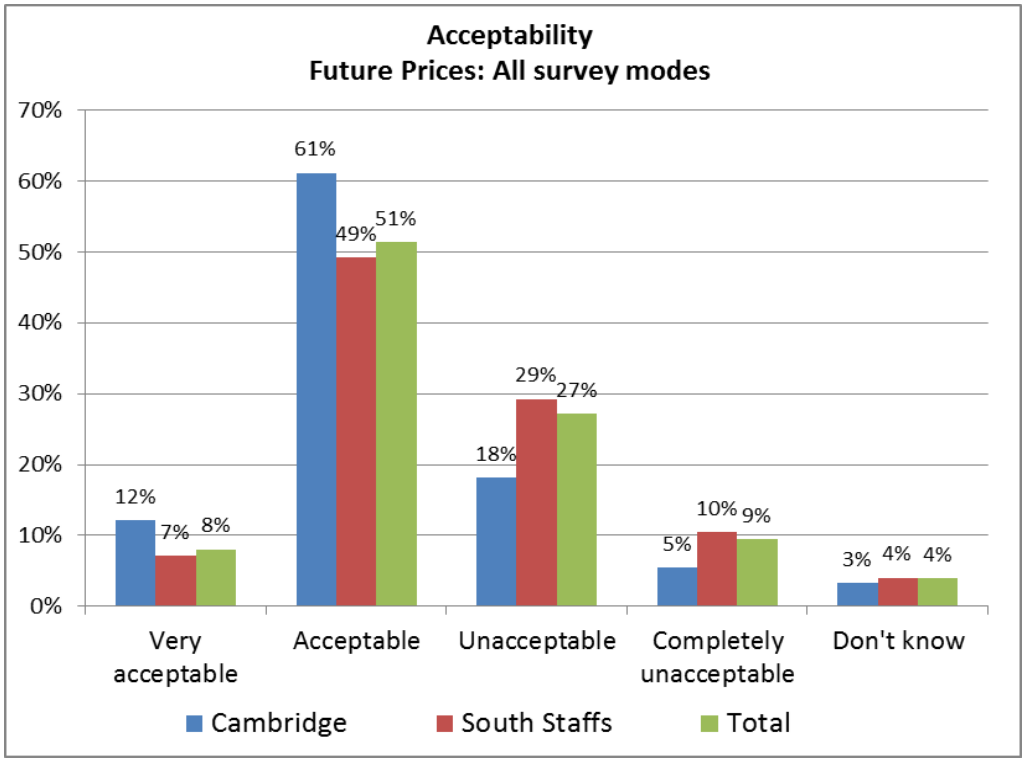


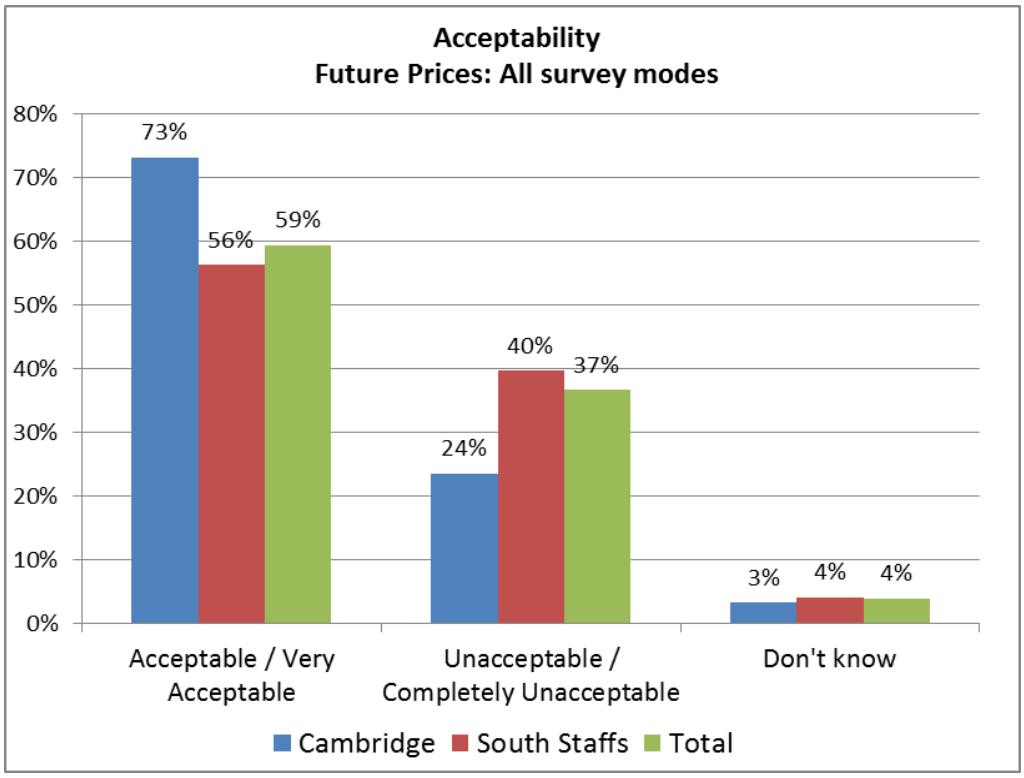
Figure **3.18** and Figure 3.19 present the results when the bill impact is shown in future (nominal) prices. The impact is to reduce overall acceptability to 59%. This reduction is more profound in the South Staffs region.

Figure 3.18: Weighted informed acceptability future prices



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Figure 3.19: Weighted informed acceptability future prices - grouped



Using results based on today's or future prices

In this section we consider in more detail the results based on today's or future prices. We included these two questions in the study to understand the impact of expressing the bill impacts differently.

The results of the study show that the level of acceptance changes significantly between the two questions. With today's prices for bill impacts overall acceptance is 82% declining to 59% when bill impacts are expressed in future prices (i.e. with inflation increases included). The results of the study show that the level of acceptance changes significantly between the two questions. This indicates that respondents either:

- May have viewed the inflationary impacts in isolation from other factors influencing their household budgets; or
- May not expect their incomes to rise in line with inflation.

It is well understood within customer research that respondents can respond differently to service/price trade-offs depending on whether prices are expressed in real or nominal price terms. A substantial body of economic and psychological literature supports the idea of a bias towards nominal terms thinking when making purchasing decisions. This bias towards nominal monetary values is termed 'money illusion' whereby rising money values are interpreted as reductions in purchasing power.

Annex 6 contains further details on the treatment of inflation (rising money prices) in customer research and how the framing of money values in real and nominal terms influences customer decisions. We conclude that when the purpose of research is to understand the money value or benefit to customers of alternative or competing options for real service levels (whether as a

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package or for individual areas of service), then bill impacts (the opportunity cost of the decision to accept) ought to be presented and framed in today's money values (real terms) not future money values (nominal terms). It remains important – as we have done in this survey - to provide explicit reminders to respondents if any money values are expected to change in real terms (maybe in general wages are rising by less than inflation).The description of inflation was based on descriptions that have been used in wider customer research, were tested as part of our survey development and we do not believe that this could have been made simpler.

A further consideration is that respondents may be uncertain about their future income prospects and hence discount the prospect of real growth in their household incomes (which would compensate for the purchasing power effects of rising money prices). This means the increase in 'non-acceptors' may be driven by those respondents interpreting nominal increases as unacceptable reductions in their purchasing power and / or respondents discounting – based perhaps on perceptions of recent economic circumstances - the prospects for future income growth.

Further analysis presented in section 3.8 below shows that those switching from acceptance of bill increases in real terms to non-acceptance of bill increases in nominal terms derived from across the income and socio-economic group distribution and there is no trend with these factors. This reinforces the idea of some respondents across all income groups discounting prospects for the real growth in disposable income that is predicted by the most recent Government economic forecasts.

We note the most recent H.M. Treasury and Office of Budget Responsibility forecasts now suggest real growth in average disposable household incomes, which contrasts recent economic experience. Furthermore, analysis of historical income trends using ONS data suggests the majority of households have consistently experienced growth in real incomes in line with the average. The exception to this is households in the bottom 10% of the income distribution.

Annex 7 provides further discussion of the evidence provided by a range of recent economic forecasts for real growth in household disposable incomes. This helps to frame the discussion about how to interpret our acceptability results.

It is plausible to suggest that recent experience is more likely to shape customer perceptions about their budgetary constraints over the next few years. Moreover, evidence and experience of economic recovery will carry more weight than Government forecasts. Respondent expectations about future income prospects may therefore be more weighted towards recent economic circumstances rather than current future projections.

Overall this means which set of acceptability results is used should to some extent be based on the forecasts for real household income across all segments of the income distribution. If real income is expected to fall (i.e. inflation rise faster than incomes) or there is evidence of households discounting the improving prospects implied in current projections then it may be more appropriate to place some weight on the lower acceptability results based on future nominal prices. We would emphasise, however, that there is no evidence from our analysis that supports the view that the changes from acceptance to non-acceptance are correlated with socio-economic circumstances.

Reasons for Acceptability of the Plan

The reasons for respondent's choices are shown in Table 3.24 and Table 3.25. Each respondent was able to choose two reasons each.

A wide range of reasons are represented for indicating that the proposed draft plan is acceptable. The top reasons for households include all customers will benefit, having to pay the bill anyway,

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the proposed bill amount is affordable and the proposals benefiting future generations. The top reasons for businesses are similar and include all customers will benefit, having to pay the bill anyway, the proposed improvements are needed and the proposals will benefit future generations.

Table 3.24: Reasons for choosing acceptable/very acceptable (percentage)

	Cambridge		South Staffs		Total	
	Business (n=154)	Household (n=362)	Business (n=130)	Household (n=646)	Business (n=284)	Household (n=1008)
All customers will benefit from the improvements	16	12	8	11	13	11
I am happy to pay the proposed bill amount	6	9	7	6	7	7
I will have to pay the bill anyway	13	18	15	20	14	19
It will improve the environment in the region	8	8	10	6	9	7
My household will benefit from the proposed improvements	0	5	0	10	0	8
My organisation will benefit from the proposed improvements	2	0	2	0	2	0
The proposed bill amount is affordable	9	11	13	11	11	11
The proposed improvements are needed	13	9	14	8	13	9
The proposed improvements are worth the money	10	9	11	7	10	8
The proposed improvements represent good value for money	9	7	4	9	7	8
The proposed improvements will benefit future generations	12	11	15	11	13	11
Other	0	0	1	1	0	0
Don't know	1	1	0	1	1	1
Total	100	100	100	100	100	100

Note: Sample sizes reflect that respondents answering the question gave two reasons for stating that the proposed draft plan was acceptable.

Table 3.25 shows the reasons for indicating that the proposed draft plan is unacceptable. Again a wide range of reasons are represented. The top reasons for households include the current bill being expensive, water company profits and objecting to paying more. The top reasons for businesses include the current bill being expensive and that the improvements should be made without increasing customer bills.

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Table 3.25: Reasons for choosing unacceptable/completely unacceptable (percentage)

	Cambridge		South Staffs		Total	
	Business (n=34)	Household (n=128)	Business (n=86)	Household (n=414)	Business (n=120)	Household (n=542)
Current service levels are good enough already	9	8	7	5	8	5
Doesn't offer enough for the environment	0	1	0	0	0	0
I cannot afford to pay the proposed bill amount	0	5	0	8	0	7
I do not believe the proposed improvements will be made	0	3	7	5	5	5
I object to paying higher water bills	1	9	6	11	6	10
I object to water companies being privatised	0	5	2	3	2	4
I would like the proposed improvements but I cannot afford to pay	1	7	0	4	1	5
I would like the proposed improvements but my organisation cannot afford to pay	1	0	2	0	3	0
Improvements in one or two service areas are needed but not all of them	1	5	5	3	5	3
My current bill is already expensive enough	2	17	15	18	13	18
My household will not benefit from the proposed improvements	2	3	0	3	3	3
My organisation cannot afford to pay the proposed bill amount	1	0	3	0	3	0
My organisation will not benefit from the proposed improvements	3	0	8	0	9	0
Other	1	2	1	2	2	2
The Government or council should pay	1	3	1	6	3	5
The improvements should be made without increasing customer bills	0	9	16	8	12	9
The proposed improvements are not needed	2	2	0	1	3	1
The proposed improvements are not worth the money	1	3	1	2	2	2
The water company is inefficient	0	3	1	0	1	1
The water company should pay	3	2	9	7	11	6
Water companies make enough profit as it is	1	11	14	14	11	13
Don't know	1	2	0	0	1	1
Total	100	100	100	100	100	100

Note: Sample sizes reflect that respondents answering the question gave two reasons for stating that the proposed draft plan was acceptable.

Table 3.26 shows the reasons for choosing don't know. The number of respondents choosing this option was quite small. The top reasons for households include not having thought enough about water services to answer the questions and would like to know more before answering. The top reasons for businesses are the same but also include don't know.

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Table 3.26: Reasons for choosing don't know (percentage)

	Cambridge		South Staffs		Total	
	Business (n=6)	Household (n=9)	Business (n=7)	Household (n=19)	Business (n=13)	Household (n=28)
I have not thought enough about water services to answer the question	33	22	14	32	23	29
I would like to know more about this before making a decision	17	11	43	32	31	25
Not enough information was provided on the aspects of the plan I am interested in	0	0	0	5	0	4
Not enough information was provided on the proposed plan overall	33	11	0	0	15	4
There was too much information and it was not clear enough to be able to make a decision	0	22	0	11	0	14
This is not important to me	0	0	0	5	0	4
Water companies and the Government should decide - customer should not be asked about this	17	0	0	0	8	0
Other (please specify)	0	11	0	5	0	7
Don't know	0	22	43	11	23	14
Total	100	100	100	100	100	100

3.8 Drivers of Acceptability

To understand whether the non-acceptors are a particular cohort of customers, a further analysis of the non-acceptors and acceptors of the plan has been undertaken. The results are presented in three stages. The first two stages present how acceptability changes for different characteristics when the results for today's prices (real prices) are considered. We first present results visually before completing statistical analysis on the data to confirm, or otherwise, the visual results. The third section assesses whether those that switched their views when presented with the bill impact in future prices (nominal prices) are more likely to have certain characteristics such as lower income or socio-economic group.

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Household SEG

Looking first at household socio-economic group (SEG), there is evidence that suggests SEG drives acceptance or non-acceptance with groups C2 and DE less likely to indicate that the plan is acceptable.

Figure 3.20: Household acceptability by Socio-economic group

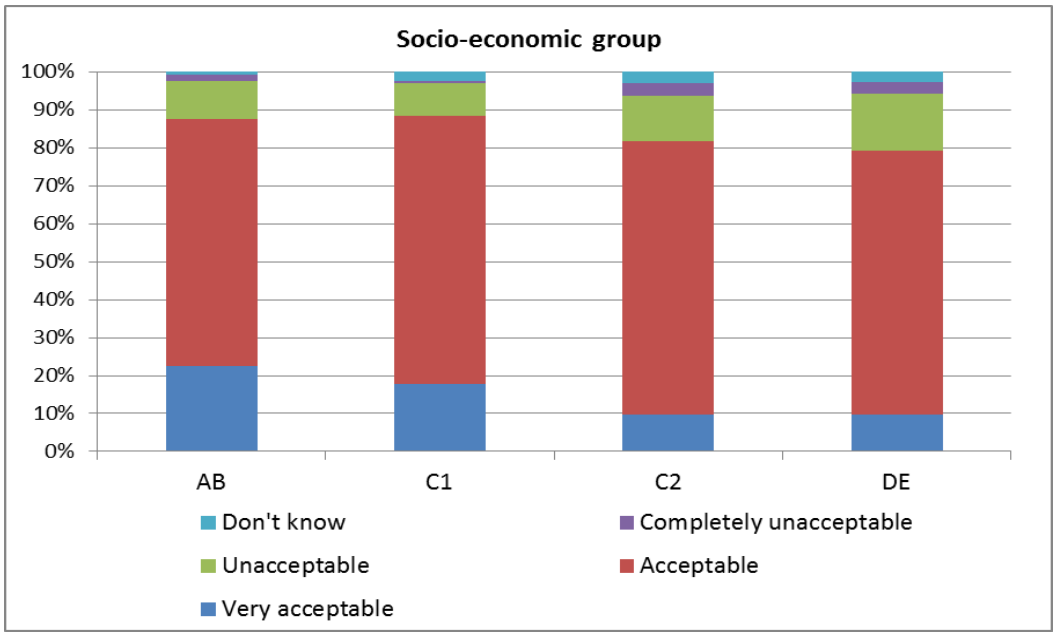
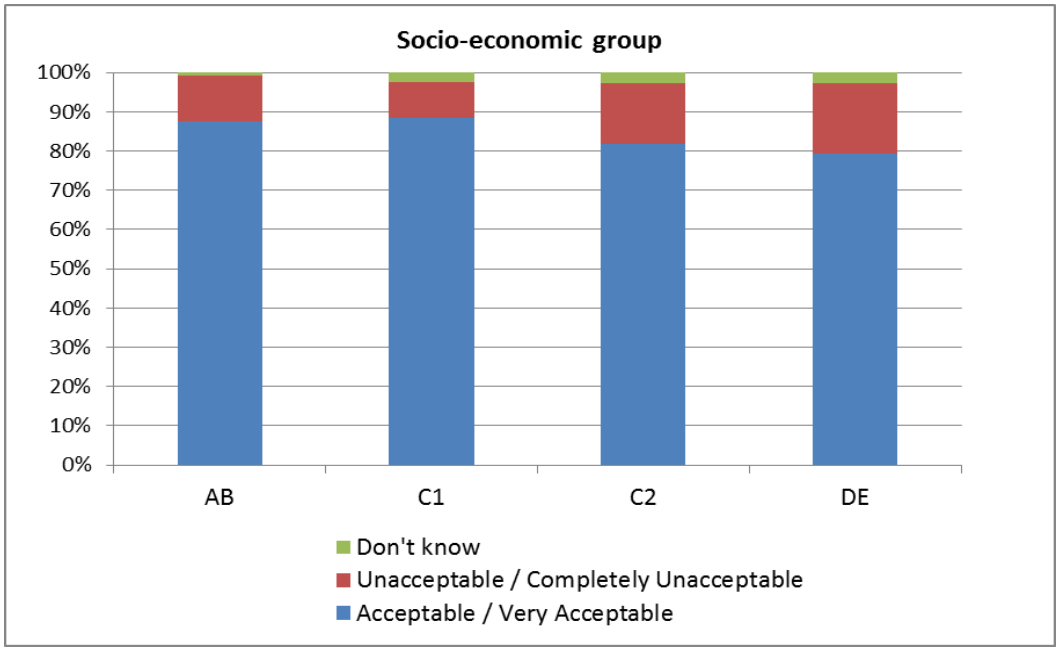


Figure 3.21: Household acceptability by Socio-economic group - grouped



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Household Metering

There is no clear visible link between metering and acceptability. Those without a meter have slightly lower acceptance but this is much less pronounced than the pilot results.

Figure 3.22: Household acceptability by metered or unmetered

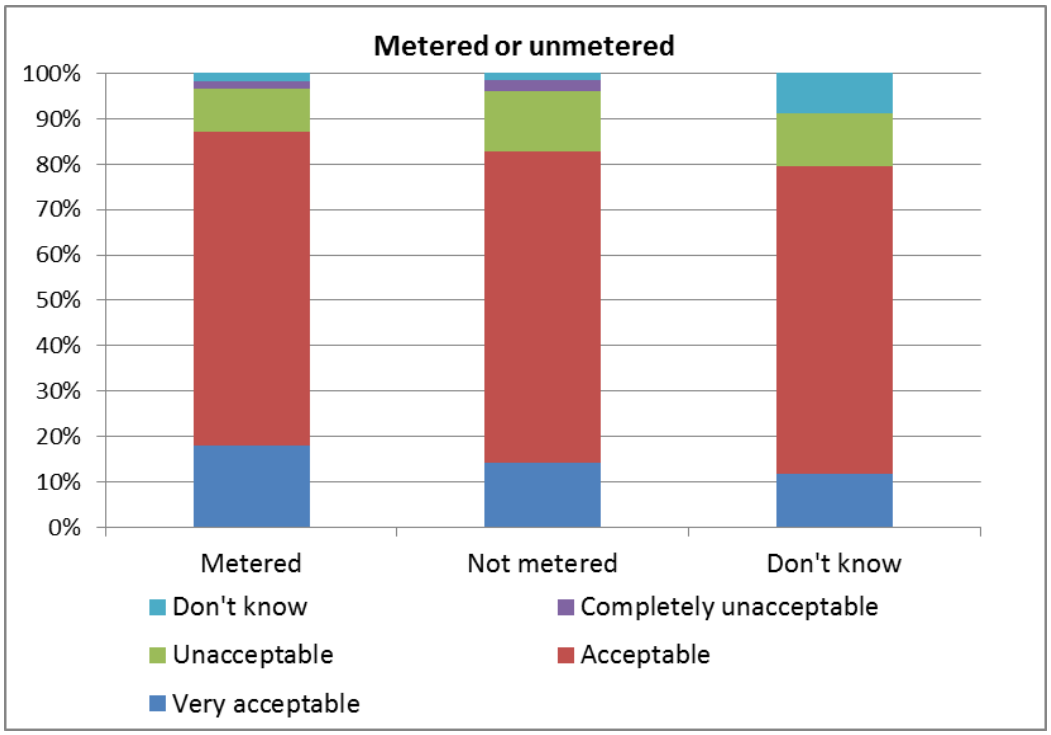
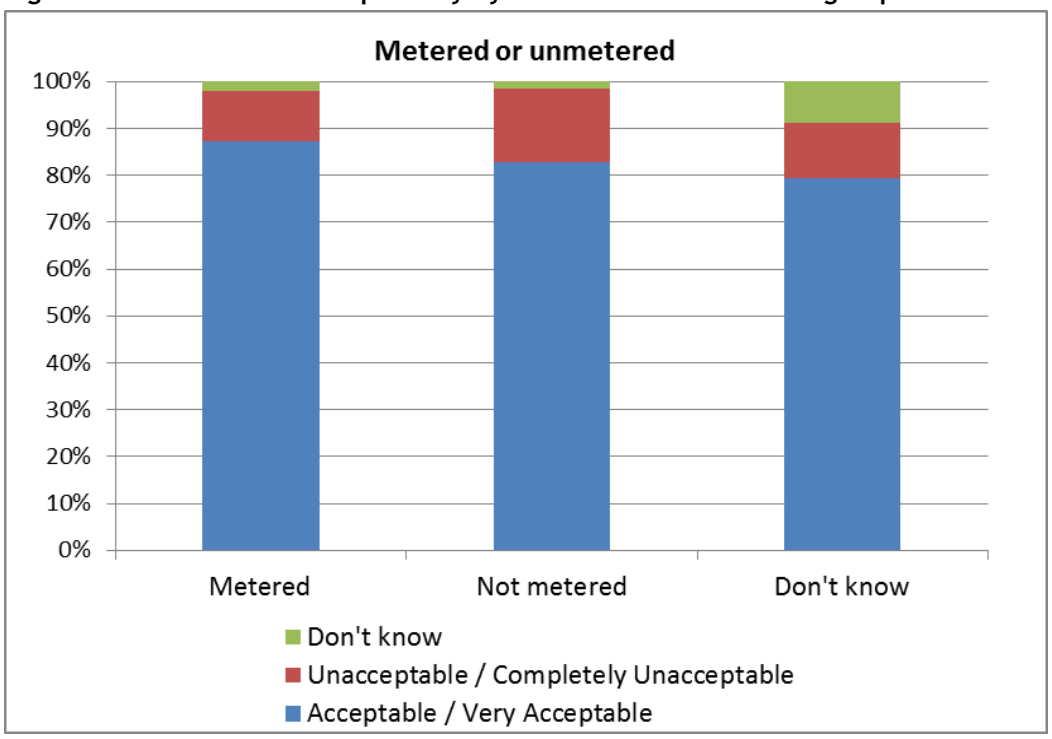


Figure 3.23: Household acceptability by metered or unmetered - grouped



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Gender

There is no clear visible link between Gender and acceptability. There are no clear differences between male and females. Although females show a higher percentage of 'don't knows' there is no evidence that suggests gender drives acceptance or non-acceptance of the plan.

Figure 3.24: Household acceptability by gender

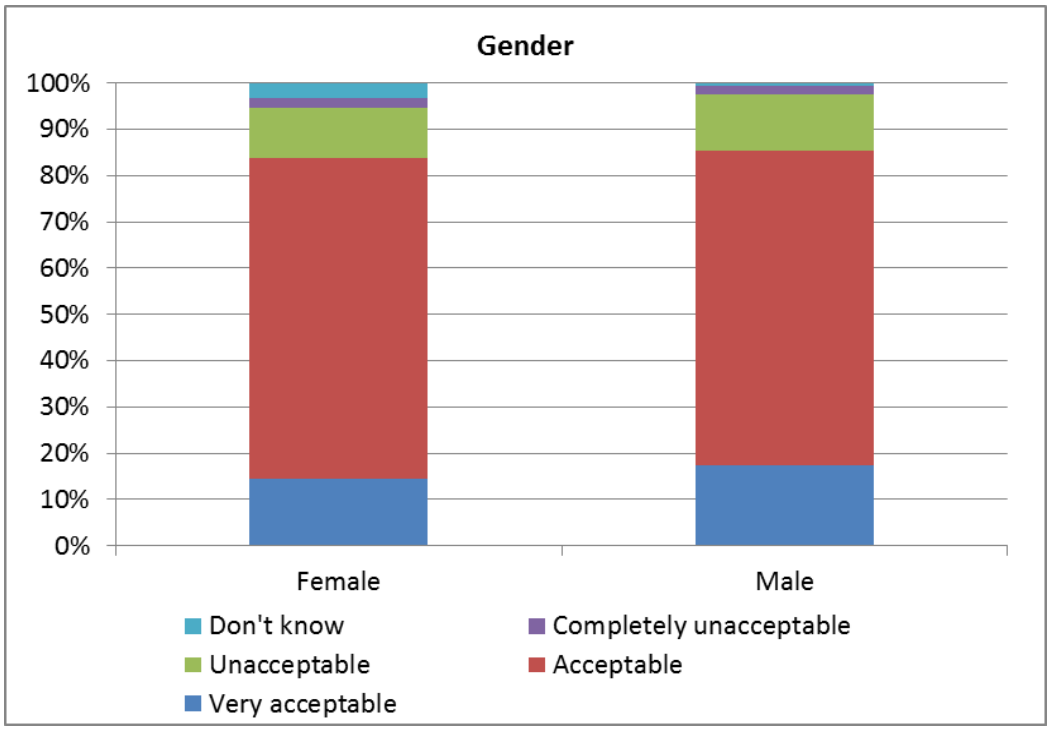
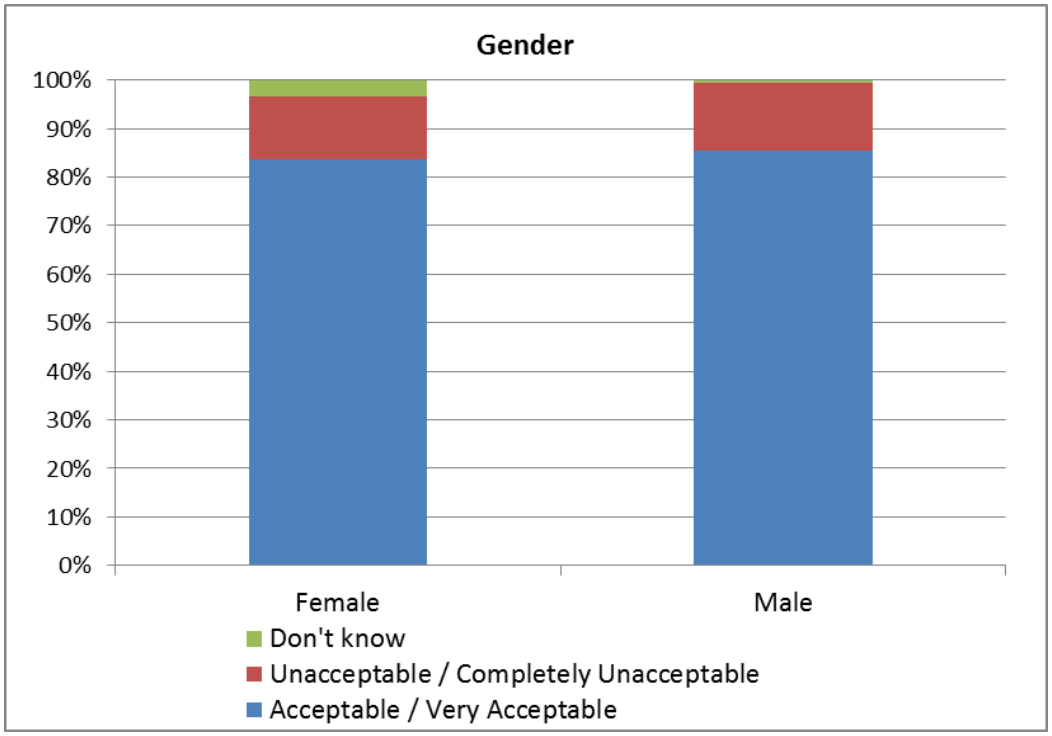


Figure 3.25: Household acceptability by gender - grouped



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Age

There is no clear visible link between Age and acceptability. The results suggest that older and younger people may be slightly less accepting, and middle age bands slightly more so. Younger respondents were more like to state 'don't know'.

Figure 3.26: Household acceptability by age

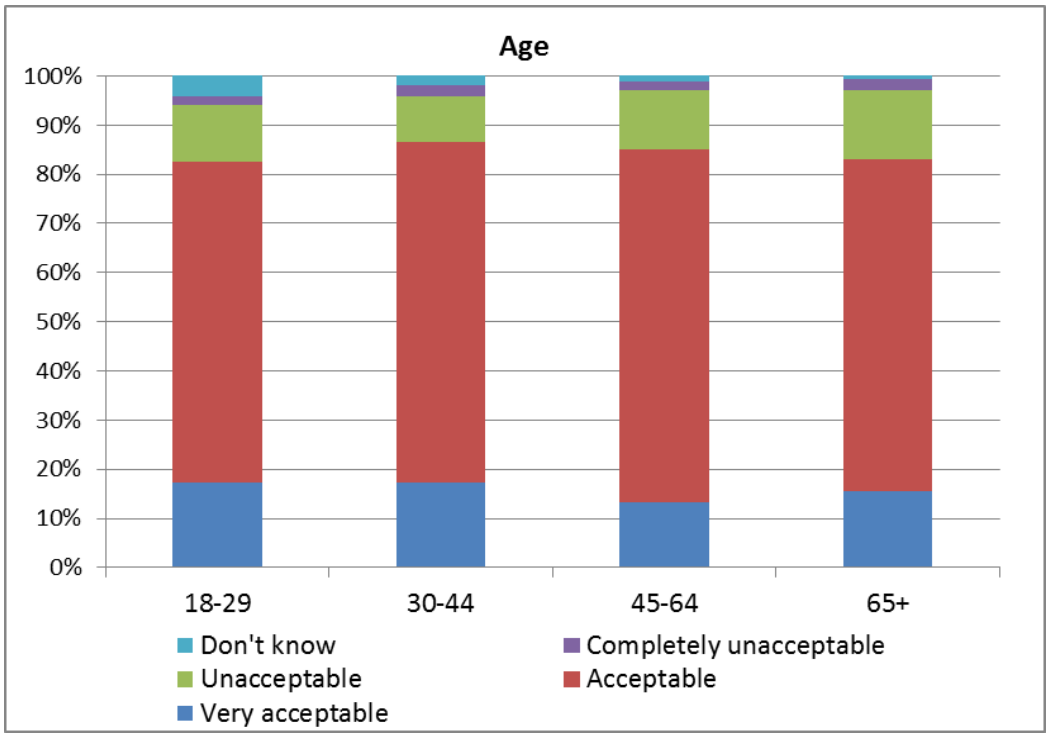
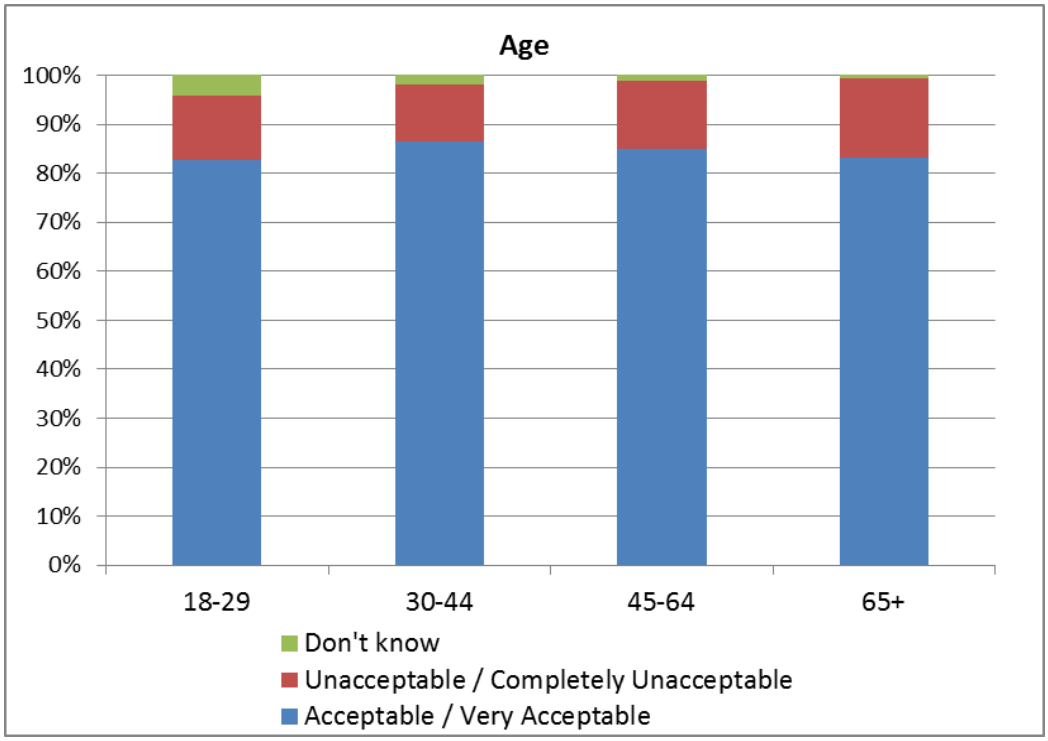


Figure 3.27: Household acceptability by age - grouped



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Statistical Analysis of Acceptability – Today's prices

Statistical tests of acceptability and the household characteristics was undertaken to confirm the visual results.

Acceptability is categorical and ordered, as are some of the household characteristics. The test to evaluate the degree of dependence between these variables is the Rank Correlation, also known as the Spearman correlation test.

The Spearman's Rank Order correlation coefficient assesses the degree of relationship between two rank-ordered variables. More specifically it tests the null hypothesis that correlation between the two variables of interest is 0. The test gives the estimated correlation and the corresponding p-value, which can be used to decide whether there is a correlation at a particular level of significance. The parameterisation of the variables used is given below.

Table 3.27: Variables parameterisation

Variable	Definition
Acceptability	Categorical variable 1= Very acceptable , 2= Acceptable, 3=Unacceptable, 4= Completely unacceptable, 5=Don't know/can't say
Region	1= Cambridge, 2 = South Staffs
SEG	Categorical variable 1 = SEG AB, 2 =SEG C1, 3 =SEG C2, 4 =SEG DE
Gender	Categorical variable 1 = Female, 0 = Male
Age	Categorical variable 1 =18-29 years,2=30-44 years,3=45-64 years,4=65+ years
Meter	Categorical variable 1 = Metered, 0 = Unmetered

The table below lists the correlation tests carried out and the corresponding p-value for the test.

Table 3.28: Correlation results

Test	P-value	Correlated?
Acceptability Vs Region	**0.005**	**Yes**
Acceptability Vs SEG	**0.000**	**Yes**
Acceptability Vs Gender	0.760	No
Acceptability Vs Age	0.165	No
Acceptability Vs Meter	0.409	No

Note: A p-value < 0.1 = 90% confidence, <0.05 = 95% confidence, <0.01 = 99% confidence.

The correlation tests suggest that only SEG and Region are related to Acceptability (statistically significant, due to a small p-value). The above analysis excludes those who choose 'don't know' when asked about acceptability. We note that when the 'don't know' responses are included in the analysis metering and gender become significant.

A chi-square test can assess the relationship between two categorical variables that are not necessarily ordered. The null hypothesis is that the variables are independent. As with the Rank test, the chi-square test gives a p-value that can be used to conclude whether the two variables of interest are dependent at a given level of significance. We note also that a chi-square test with

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the acceptability results grouped into acceptance and non-acceptance showed similar results to the Spearman Rank test.

Statistical Analysis of Acceptability – Respondents switching acceptability answer

The analysis of the results based on today's prices show that respondents with a lower socio-economic group are more likely to state that the plan is unacceptable. As this trend has been observed it not appropriate to look at the overall profile of all customers stating that the draft plan is unacceptable when presented with future prices (nominal results). This is because these results will include respondents that have already stated the plan is unacceptable. Instead our analysis has examined the characteristics of the households that have switched acceptance to become 'non-acceptors' when presented with the bill impact in nominal terms.

The data shows that those switching are distributed across the income distribution and socio-economic classification and there is no relationship between these factors and whether a respondent switched.

We have complete statistical analysis on the data to estimate whether a relationship exists using a Chi-squared test that assesses whether the characteristics of those switching differs from the characteristics observed in the whole sample. The results are shown in the table below.

Table 3.29: Correlation results

Test	P-value	Correlated?
SEG	0.256	**No**
Age	0.815	No
Education	0.971	No
Income	0.722	No

Note: A p-value < 0.1 = 90% confidence, <0.05 = 95% confidence, <0.01 = 99% confidence.

3.9 Choices for merger savings

This section presents the findings on the choices and impact of investing the merger savings. Customers were informed that by merging earlier in the year South Staffs Water have been able to make cost savings. They were informed that the proposed draft plan they had view included these savings in the form of lower bills and offered customer three choices relating to the investment of these savings. These choices include no change to the proposed draft plan. The respondents were asked to indicate their preferred and second choice effectively ranking the options. The results are shown in **Figure 3.28** and **Figure 3.29**.

The findings show that customers would prefer to have the efficiency savings passed on as lower bills. If the savings are invested then customers would prefer the money to be spent on repairing the water supply pipes that customers own. Respondents were asked about how they would view the acceptability of the plan if the merger savings were invested. The findings show that this would reduce overall acceptability by 8%.

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Figure 3.28: Merger savings preferred choice

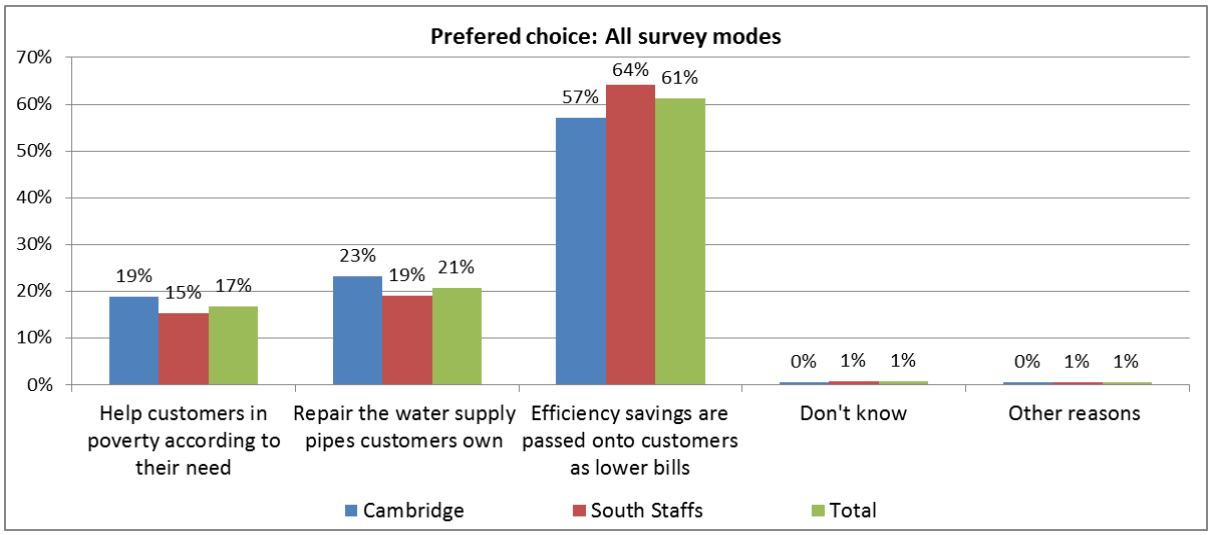
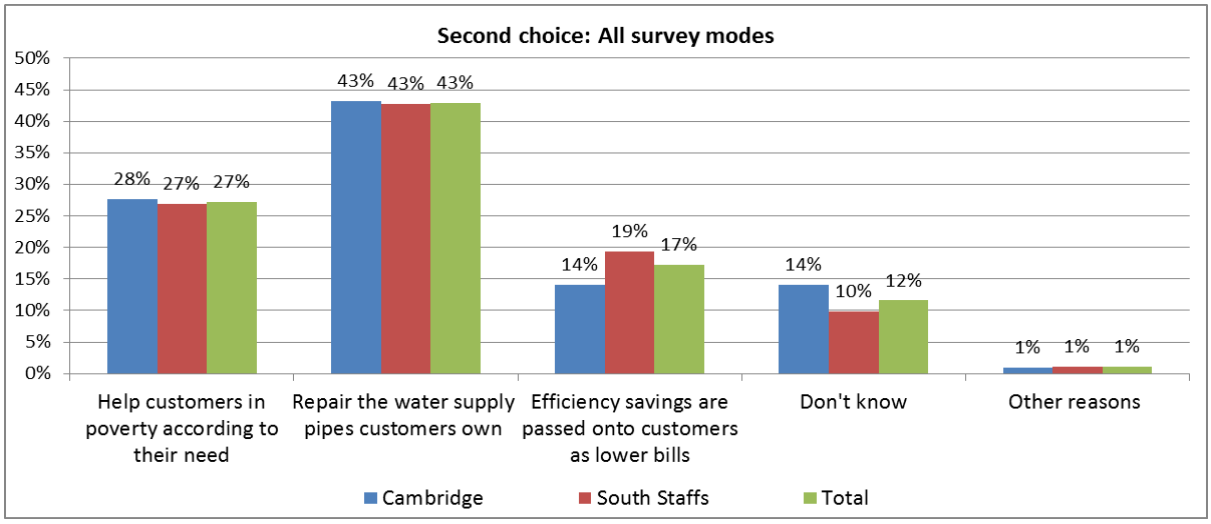


Figure 3.29: Merger savings second choice



3.10 Impact of a Social Tariff

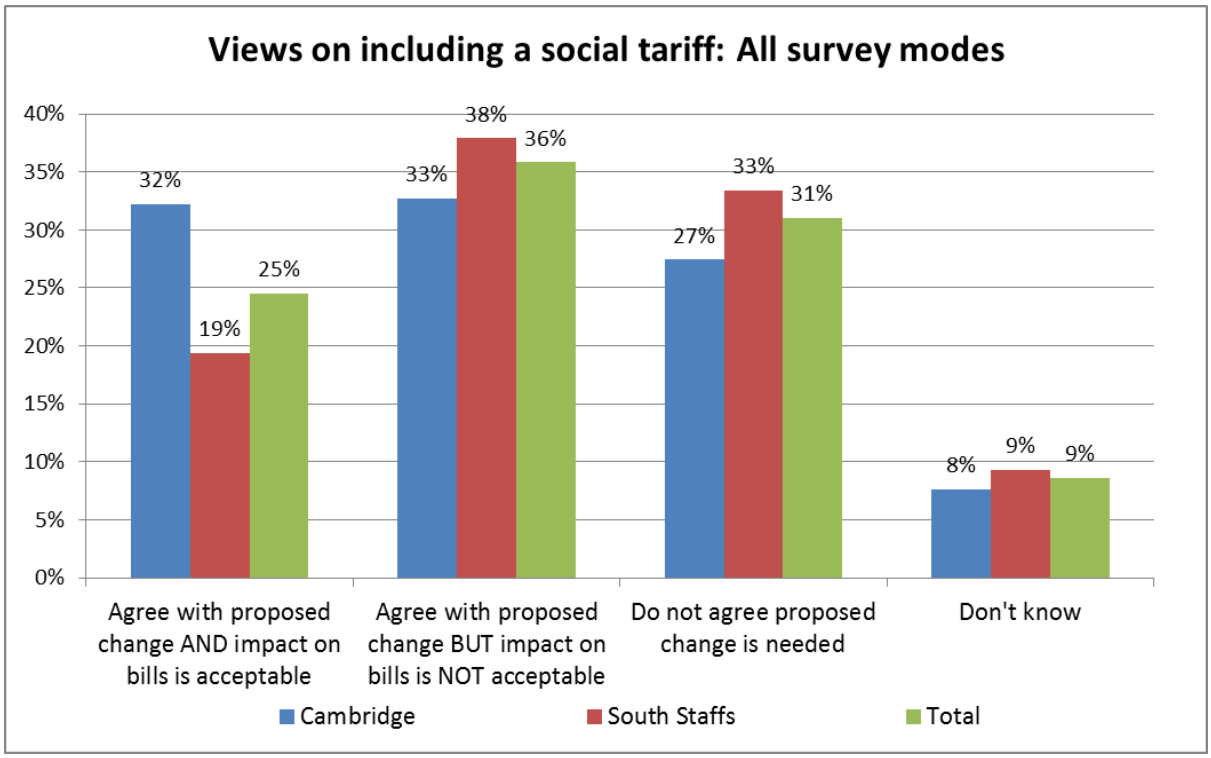
The survey also explored customers' views on the introduction of a social tariff.

Figure 3.30 presents the findings. It shows that customers have mixed views and although 6 in 10 customers agree with a social tariff only 25% of customers agree with a social tariff and the impact on bills. A third of customers do not agree with a social tariff and 9% of customers are undecided.

Similar to the question on investing the merger savings respondents were asked about how they would view the acceptability of the plan if a social tariff was introduced. The findings show that this would have a significant impact on acceptability reducing overall acceptability by 31%, although 6% of this change is a move to 'don't know'.

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Figure 3.30: View on a social tariff



3.11 Impact of Sewerage Bill

As South Staffs provides Water Services and not Sewerage Services there is a possibility that the sewerage bills could rise. At the time of study draft consultations of sewerage providers indicated that any real price change is likely to be low. As a result the following range of sewerage bill changes were included in the study to be randomly viewed by respondents:

- Household
  - -£5
  - -£3
  - £3
  - £5
- Business
  - -4%
  - -2%
  - 2%
  - 4%

The results suggest that sewerage bill increases do impact on acceptability.

For households the results similar for first three bill changes. Acceptability appears to be very slightly lower for a bill reduction of £5 but this is within a margin of error due to variation in results due to sample size. An increase of £5 begins to impact on acceptability reducing acceptability by 9%.

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For businesses the difference more marked but a smaller sample and results more sensitive to sample size. The difference between the first three bills levels are within the margin of error. However, a bill increase of 4% has a large impact reducing acceptability by 24% from the 2% level.

To understand whether the results show a significant relationship a correlation test was conducted. The table below lists the corresponding p-value for the test. The results show that the results described above should be considered significant although this is more marginal for households.

Table 3.30: Correlation results

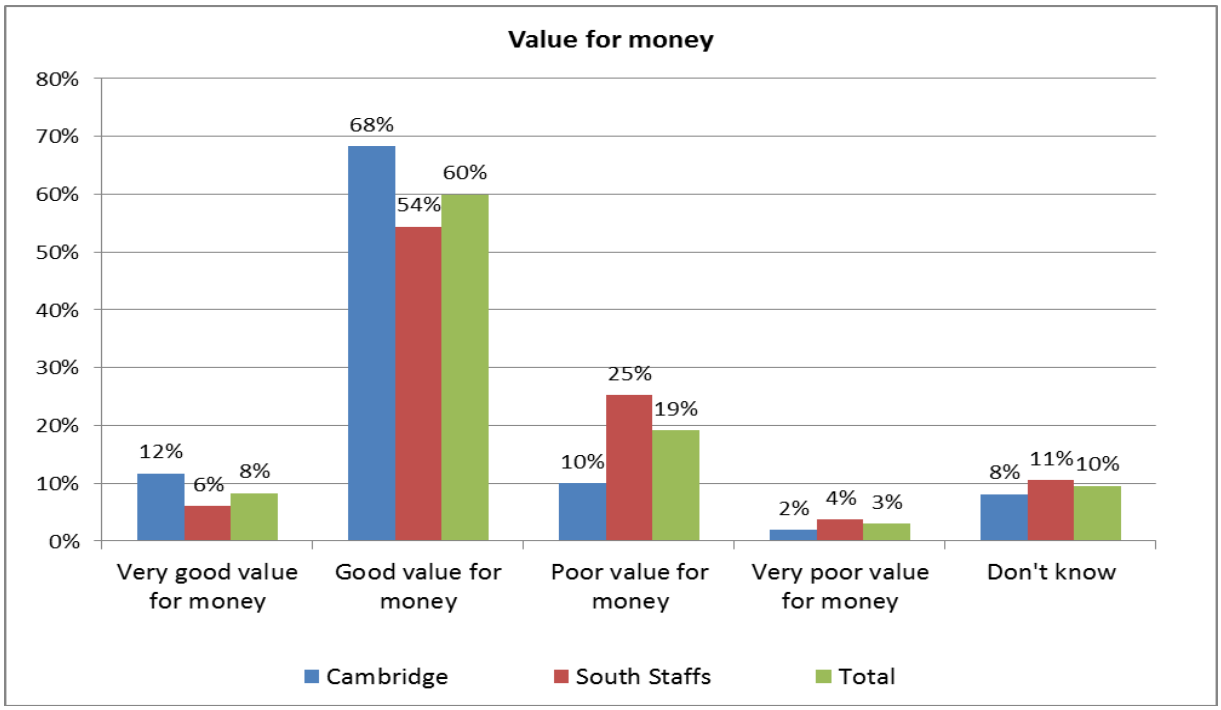
Test	P-value	Correlated?
Household Acceptability Vs Sewerage Bill	**0.067**	**Yes**
Household Acceptability Vs Sewerage Bill	**0.000**	**Yes**

Note: A p-value < 0.1 = 90% confidence, <0.05 = 95% confidence, <0.01 = 99% confidence.

3.12 Value for money

Respondents were asked evaluate the proposed draft plan in terms of the value it provided. The figure above shows that the majority of customers saw the plan as either 'Good' or 'Very Good' value for money. Customers in the Cambridge region were less likely to give a negative response in terms of the cost of their service. This could be a reflection of the higher incomes in the Cambridge sample.

Figure 3.31: Value for Money

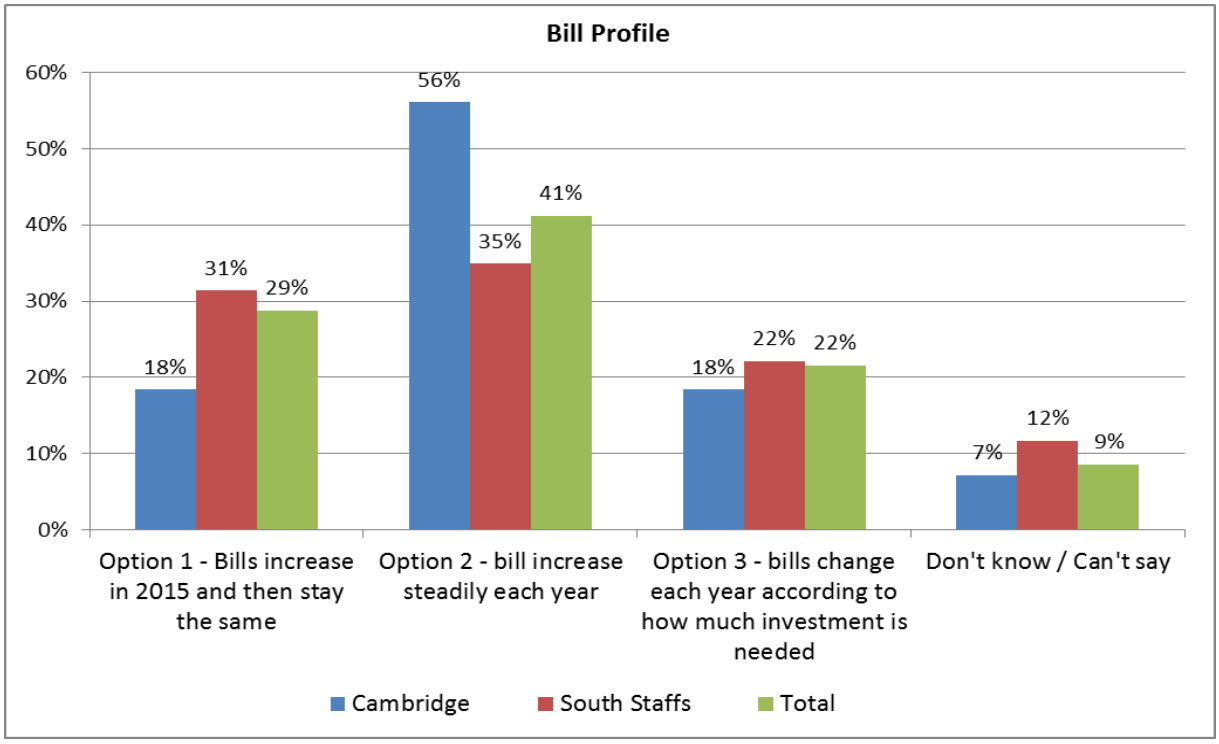


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3.13 Bill Profile

Customers were asked to express how they would prefer to see bill increases dealt with over the forthcoming five year period. Overall the greatest consensus was for a steady increase each year, although this was more marginal in the South Staffs region.

Figure 3.32: Bill profile preferences



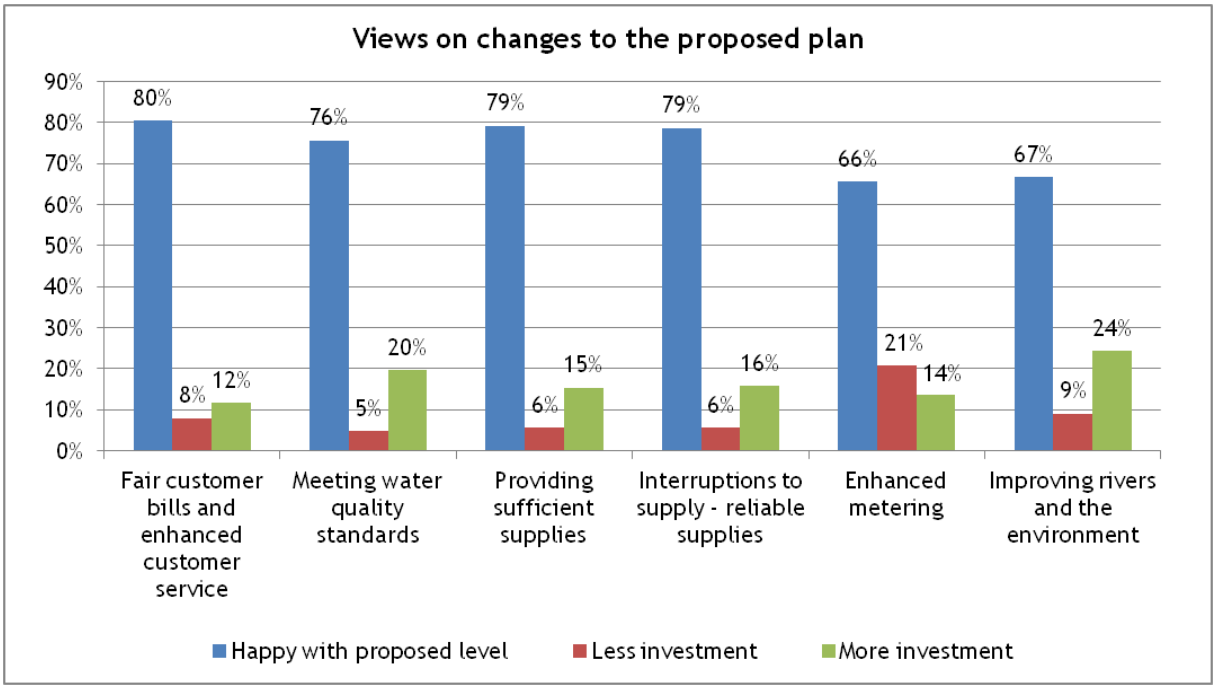
3.14 Plan Improvements

Respondents were asked their views on how the proposed draft plan could be improved in terms of the balance of investment. Overall customers appear happy with the changes suggest in the proposed draft plan.

One area to consider less investment is metering. If this could be coupled with more investment in water quality and environment issues we may see an improvement in overall acceptability. However, as the bill impacts have been shown to have a strong influence on acceptability the level of investment would need to be balanced to be certain that any changes would not reduce acceptability.

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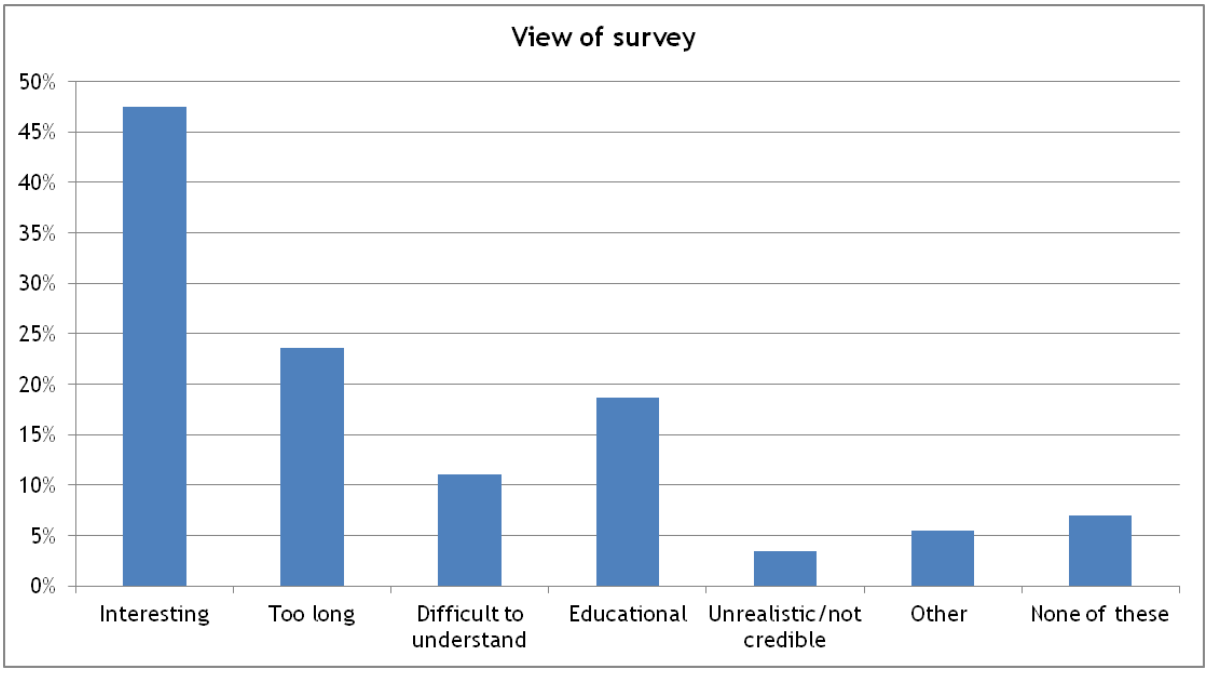
Figure 3.33: Improving the plan



3.15 Respondent feedback on the survey

When given the opportunity to provide feedback on the survey respondents were able to choose one or more of the above responses. Almost half stated the survey was interested suggesting engagement with the exercise. Only 11% found it difficult to understand and 3% stated that it was not credible.

Figure 3.34: Overall view



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4 Conclusions

4.1 Summary

The overall objective of the *PR14 Acceptability study* was to understand customers' views on the proposed business plan and to provide South Staffs Water with a customer mandate to put into operation the Business Plan that has been tested in the acceptability research.

The acceptability research has tested customers views on specific investments proposed for the five year period from 2015 to 2020, potential amendments to the proposed draft plan and the profile of bill increases.

The study presented customers with an itemised bill tailored to the customer's existing bill amount. The results of the study are based on a large scale sampling of household and business customers across the Cambridge and South Staffs regions. Analysis of the results has included statistical analysis to examine the drivers of acceptance. Overall the study provides robust estimates of acceptance that can be used to support the business plan development and submission.

4.2 Key findings

The Key findings are:

- Customer satisfaction is currently very high with 96% of customers stating they are either 'very satisfied' or 'fairly satisfied' with the service they receive
- While the majority of customers find their water bill affordable, a sizeable number have difficulty paying (1 in 5). This is likely to limit the appetite for additional service improvements and bill increases.
- The results show the proposed draft plan is acceptable to the majority of customers (82%) when presented in today's prices. The findings show a large difference when the plan is shown in today's (real) and future (nominal) prices (59%). We have examined which set of results it is more appropriate to use and we recommend focusing on the results based on today's prices.
- Customers would prefer the merger savings to be passed on in the form of lower bills instead of being reinvested. However, if the merger savings are reinvested this has a relatively small impact on acceptability and customers would prefer to invest in water supply pipes over helping vulnerable customers.
- A social tariff has a large impact on acceptability reducing this by 31%.
- Acceptability is linked to customer characteristics such as income or SEG and differs across regions with acceptance higher in the Cambridge region. There is no link between age, gender or whether a customer is metered and acceptability.
- There is no link between socio-economic group, income, education or age for those that changed their views on whether the plan was acceptable to unacceptable when presented with future prices.
- When water bill increases for improvements were presented alongside increases in sewerage bills acceptability fell for the larger increases presented.
- Overall the plan appears well balanced requiring fine tuning rather than wholesale changes.

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Document Control

Version History

Version	Date	Comments
1.0	14/10/2013	Draft issued to South Staffs Water
2.0	29/10/13	Amended report issued
3.0	25/11/13	Updated following final CCG Meeting

Distribution

Version	Owner	Proof read by	Issued to
1.0	Amanda Borrmann	Lisa Gahan	Barbara Julye
2.0	Amanda Borrmann	-	Barbara Julye
3.0	Amanda Borrmann	Lisa Gahan	Barbara Julye

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