



Our infrastructure,
Our future



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About this report



INTRODUCTION

UTILITIES PROVIDE CRITICAL NATIONAL INFRASTRUCTURE – HEATING OUR HOMES, PROVIDING US WITH CLEAN WATER TO DRINK, ENABLING US TO COMMUNICATE, LIVE AND WORK.

Energy, telecoms and water infrastructure networks are vital for the smooth functioning of society. They underpin our daily life, enabling businesses to flourish, people to stay warm and healthy and connected with each other.

Utility services have been in the news a lot recently.

The war in Ukraine drove oil and gas prices so high the UK government stepped in to subsidise every household bill in the country. This drove the need for increased energy security up the policy agenda alongside the transition to net zero. Many households face a perfect storm of inflation, increased energy bills and rising housing costs. Interest rates rose sharply, increasing mortgage and rental costs. While some pressures have eased for now, the cost-of-living crisis remains.

Water companies have received a lot of negative press for the use of storm overflows, pollution and the resulting impact on the quality of rivers and bathing waters. Public concern about the level of storm overflow use was strong enough for the government to toughen the Environment Act as it passed through parliament. Eleven water companies are facing enforcement action from Ofwat for storm overflow discharges. The UK's largest water company, Thames Water continues to operate under extreme financial pressure, with the possibility of temporary public ownership.

The cancellation of the northern leg of High Speed 2 highlights the challenges large infrastructure programmes face. These can be emotive subjects, with significant impacts on people's everyday lives.

This report cuts through the noise and focuses on the evidence to give the public a voice in the future of their vital infrastructure.

Shining some light on the debate

To inform the debate we surveyed a nationally representative cross section of the public (who pay for infrastructure services and on whose behalf they are provided) across England and Wales to understand what they want from infrastructure and utility organisations. The survey was designed to understand what the public think about the energy, water and telecoms sectors. In particular, what are the most important challenges that they feel the industries should be addressing and what their priorities are for companies, government, policy makers and regulators. Put simply:

- what should these sectors be delivering?
- how should they do it? and
- where should their focus be?

The survey updates similar research that we undertook in 2010 on the water sector and expands the coverage to energy and telecoms.

THIS REPORT

The National Infrastructure Commission's (NIC) Second National Infrastructure Assessment has clearly set out the challenges: decarbonisation; shifting to renewable electricity; drought resilience; flood resilience; access to gigabit broadband; electric vehicle charge point numbers; asset maintenance; and environmental water quality.

As the NIC also rightly highlight, infrastructure policy can only be effective if it is affordable for all.¹ This is particularly important as utilities seek to rebuild trust in their respective sectors. It will be vital to closely understand customers and to work together to define the path that society as a whole wants to take in harmony with customers.

Much of what utilities will need to deliver relies on consent and action from customers, be it reducing the amount of water we use, installing heat pumps in our homes or allowing 5G masts in our communities. Success requires trust and partnership to deliver behavioural change, which in turn requires listening to and understanding customers.

This report draws on the evidence gathered via our nationally representative survey combined with our expertise advising utility companies, regulators and government departments for nearly 25 years to identify insight and actions required to deliver our infrastructure, our future.

For further information on our work or the survey, including more detailed analysis of the survey results, contact info@icsconsulting.co.uk



ABOUT THE AUTHORS



Dr Melinda Acutt is a highly experienced regulatory and public policy economist with a strong background in academia and a track record of integrating customer voices into business plans. She has worked on price controls for regulated companies and is a former member of the Water

Services Regulation Authority (Ofwat Board).

Melinda joined ICS Consulting in 2010, where she leads the Regulation and Customer Engagement function and advises infrastructure organisations on strategic and regulatory issues.



Amanda Markwardt is regulatory and policy economist with a detailed understanding and experience of regulatory economics, cost assessment policy, translating business requirements into customer and stakeholder engagement and

research, investment planning and cost benefit analysis. Amanda has a considerable track record in developing regulatory tools, frameworks and incentives, integrating research findings into business plans and day to day policy.



Dr Scott Reid is a widely respected and experienced utility regulatory economist. He joined ICS Consulting in January 2008 where he advises clients on economic, financial, and regulatory issues.

Scott has worked extensively with the regulated private sector water utilities

and regulator in the UK in areas such as regulatory incentives, tariff development, business & investment planning, efficiency analysis, cost benefit analysis & competition.



Olly Worsfold is an experienced Research Director with a strong focus on supporting organisations in the Utilities & Infrastructure sectors through both regulatory business planning and customer engagement on a range of delivery

challenges including vulnerability, decarbonisation of heat and improving customer services.

Olly is passionate that the views of customers and stakeholders are front-and-centre when key decisions are made, and is an expert in engaging on complex topics.

Our infrastructure,
Our priorities

THE VITAL IMPORTANCE OF UTILITY SERVICES

UTILITIES UNDERPIN OUR DAILY LIFE AND ECONOMIC ACTIVITIES

Without utilities, businesses would struggle to operate efficiently, and as individuals we would all face significant challenges in meeting our basic daily needs. Investment in the provision of modern utility infrastructure drives economic growth while protecting the natural environment and contributing to the improvement of the quality of life across our communities.

The services provided by utility companies are recognised as important by the public.

We began our survey of our representative sample of the public by asking how important utility services are relative to other important issues for people and their local area.

Overall health services are seen as the most important issue (with 75% choosing health as one of their top 5 most important issues), followed by clean, safe drinking water (54%). After these health issues come the economy (49%) and roads and transport (48%). It is noticeable that these are all above law and order (45%) and schools (37%).

Energy reliability, environmentally friendly sewage disposal and high-speed internet feature in the top 5 for around a third of the public, with mobile and energy sustainability coming in the top five for a fifth. Given the high profile of environmentally friendly sewage disposal in the media it is interesting that as an issue of local importance it makes the top 5 for only one third of the public.

Of the issues included in the 2010 survey (i.e. excluding energy and telecoms) only water and sewerage have risen in importance. Law and order in particular has fallen significantly from 70% in 2010 to 45% in 2024.

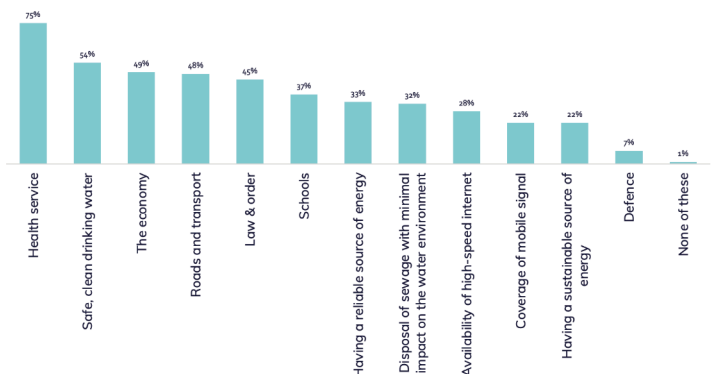
Some issues are more important for older age groups compared to younger - priority increases with age for both energy reliability and

environmentally friendly disposal of sewage. Customers in vulnerable circumstances are more likely to prioritise having a reliable source of energy than other customers. A high-speed internet is a higher priority for men compared to women and people under 55 years old compared to those over 55.

It is clear from our survey results that utility services are important issues for the public, and that their order of importance is clean safe drinking water, reliable energy, sewage disposal and telecoms.

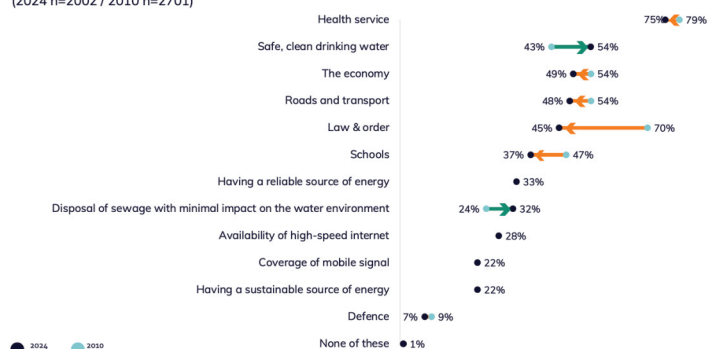
Public's key priorities for their local area

Q: Please pick a maximum of five of these that you believe are most important to you and your local area. (n=2002)



Public's key priorities for their local area (movement since 2010)

Q: Please pick a maximum of five (four in 2010) of these that you believe are most important to you and your local area. (2024 n=2002 / 2010 n=2701)



New measures introduced in the 2024 survey are: Having a reliable source of energy, Availability of high-speed internet, Coverage of mobile signal, Having a sustainable source of energy.
NB: 1% selected 'None of the above'

LOOKING TO THE FUTURE

THE NATIONAL INFRASTRUCTURE ASSESSMENT

The UK's National Infrastructure Commission (NIC), the body charged with identifying the UK's major infrastructure needs, described the sector as at a pivotal moment¹. The commission's Second National Infrastructure Assessment, published in October 2023 identified three key challenges facing our infrastructure:

- Supporting economic growth across all our regions and reducing regional inequalities starts with modern infrastructure. Better connected regions, improved transport links and enhanced internet access across our rural areas drive productivity, attracting skills and investment, and enabling growth.
- Decarbonisation of our economy – delivering net zero by 2050 poses a significant challenge for all sectors of the economy.
- Phasing out fossil fuels in operations as well as embedded carbon in construction provides both a challenge and an opportunity to innovate and remove reliance on volatile global energy markets.
- Improving resilience and the environment – mitigating the impacts of climate change – more frequent and severe weather – to safeguard infrastructure, protect the environment and ensure resilient services

¹ National Infrastructure Commission (2023), The Second National Infrastructure Assessment.

requires action now.

These challenges are compounded by:

1. Growing demand – The UK population² is projected to rise by nearly 15% over the 25 years to 2046;
2. Low levels of trust – Trust between customers and companies is critical if the sectors are to navigate a path to resolve these challenges. This is particularly pertinent for the water and energy sectors.

The NIC identifies infrastructure investment will need to increase significantly, with annual expenditure peaking at 36%³ above the levels seen over the past decade in the mid 2030s. The Commission also recommends households are supported through the energy transition to ensure it is both fair and affordable.

Added to these cross-cutting themes are specific sectoral challenges that are explored in the following sections.

² ONS (2024), National population projections: 2021-based interim. Data and analysis from Census 2021

³ ICS calculation based on the anticipated range of 70 to 80 billion required per annum in the 2030s compared to an average of 55 billion annual expenditure over the past decade.



CHALLENGES FOR WATER

RESILIENT SERVICE AND ENVIRONMENTAL CHANGE

Meeting rising expectations at a time of environmental challenge

The UK water sector faces significant challenges in managing its ageing infrastructure while meeting growing demand and rising expectations. Climate change is also expected to increase the risk of flooding and drought, exacerbating strain on resources. Abstracting water from the environment for drinking water and returning treated effluent to our rivers and seas means that the sector's activities are intrinsically linked to the quality of the water environment – companies have ambitious targets to reduce the impacts of treated effluent and storm overflows.

The scale of this challenge is reflected in companies' five-year business plans¹ which propose an average 63% increase in expenditure over the next five years.

This increase has reduced to 50% in Ofwat's recent Draft Determinations.

We saw earlier that clean, safe drinking water is the second most important public priority overall. Digging a little deeper, we asked our representative sample of the public to choose

1 Companies submitted plans prepared for the 2024 Periodic Review of prices (known in the sector as PR24) to the water regulator Ofwat in October 2023

their three most important priorities within the water sector.

The public are clear that affordable water bills for everyone is their top priority (with 73% including this as one of their top three most important). Yet the priorities coming in close behind at number two and three both entail significant additional investment.

A clean water environment is also clearly important, with 63% choosing a clean water environment that supports a diversity of habitats and wildlife as one of their top three priorities. As is reducing the risk of flooding to properties and public areas (58%).

Choice of water supplier is less important to the public now than it was in 2010 (falling from 61% in 2010 to 24% in 2024).

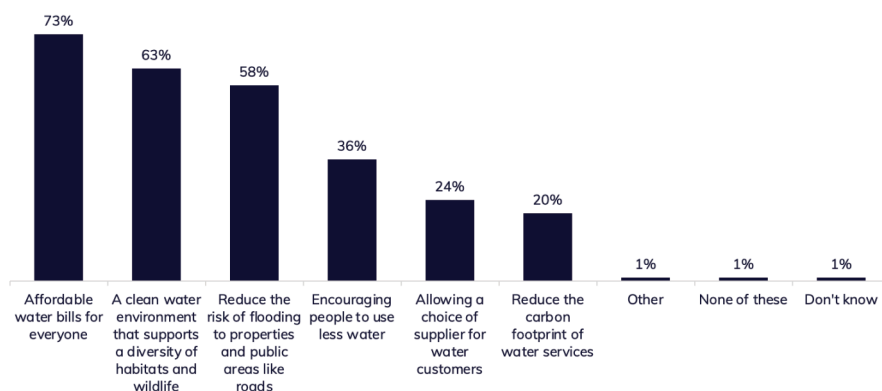
Encouraging people to use less water has also fallen from 69% in 2010 to 36% now. This lower priority can only add to the challenge facing water companies as they encourage us all to change our behaviours and use less water in order to meet ever tougher targets to reduce water consumption.

Public priorities for the water sector are strongly correlated with life stage and affluence. Affordable bills are more likely to be selected as a priority by the less affluent and renters

compared to homeowners, whereas a clean water environment and reducing the risk of flooding (which are often local issues) are a higher priority for older age groups compared to younger, and homeowners compared to renters. The priority of reducing water company carbon footprints decreases as age increases and is a lower priority for homeowners compared to renters.

Public priorities in the water sector

Q: In the water sector, which three of the following priorities do you think are the most important? (n=2002)





CHALLENGES FOR ENERGY

UNPRECEDENTED CHANGES

The energy sector is facing a transformational time as it plays a crucial role in the UK's commitment to deliver net zero by 2050.

Achieving this goal requires a clear strategy for transitioning to clean energy, green technology, and a flexible energy system. The future role of large parts of the current energy infrastructure such as the gas distribution networks is uncertain – will they be required? and if so in what form? The role of Carbon Capture and Storage (CCS) and hydrogen in the future UK energy landscape are still to be determined.

The UK's net zero challenge requires significant investment both at a national and household level. New and existing infrastructure will need the capacity to meet these shifting demands. This will be particularly significant for the electricity sector.

Households will need to transition to cleaner technology, such as heat pumps and electric vehicles. But the uptake of these new technologies is suffering from inertia with heat pump installations falling below the levels required to meet targets¹.

As for water, our representative sample of the public are clear that affordable bills for all are a top priority (with 71% choosing this as one of their top three priorities).

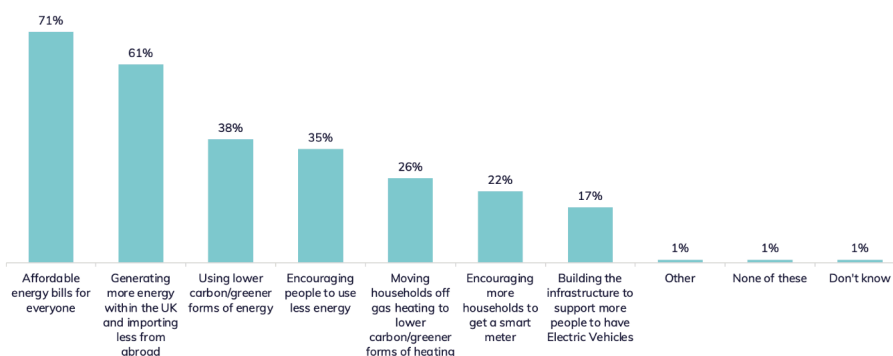
Next comes greater energy security with more domestic production, which is in the top three for 61%. It is possible that respondents view this as a way to deliver affordable bills for all in the longer term, given the recent high energy prices associated with dependence on fossil fuels traded through international markets.

Fewer respondents consider a move to greener forms of energy a priority, with 38% choosing

this as one of their top three priorities for energy. Using more greener energy overall is a higher priority than moving households off gas (26%) and building the infrastructure to support electric vehicles (only selected by 17% as a top three priority, the lowest prioritised option across all the sectors.)

Public priorities in the energy sector

Q: In the energy sector, which three of the following priorities do you think are the most important? (n=2002)



¹ National Infrastructure Commission (May 2024), Infrastructure Progress Review 2024

As is the case for water, encouraging people to save energy is only a top three priority for a third of the public. Combined with only a quarter seeing a transfer away from gas heating as a priority, this again highlights the challenge of bringing customers along on the journey to our infrastructure of the future.

Delving into the detail of how different respondent groups view priorities shows an interaction between affordable bills and energy security. Whilst affordability is the top priority, it is higher for women compared to men, and renters compared to homeowners. It is also a notably lower priority for the most affluent. This group, along with homeowners, are more likely to prioritise energy security than those with

lower affluence and renters. The prioritisation of energy security also increases with age.

Priorities that require action or behaviour change also show notable differences across groups which could be linked to perceived personal costs and benefits.

Older people (55+ years) are more likely to prioritise encouraging people to use less energy whereas the importance of moving households away from gas heating and increasing smart meters decreases with age and is lower for homeowners compared to renters.

The importance of EV infrastructure also decreases with age, but is higher for men and more affluent respondents.



CHALLENGES FOR TELECOMS

EFFECTIVE COMMUNICATION FOR EVERYONE

Delivering 5G and gigabit-cable fibre broadband across the UK

Providing homes and businesses across the UK with faster and reliable mobile and broadband connections underpins economic growth and has the potential to enable smart technology.

The UK Government is targeting standalone¹ 5G coverage for all populated areas together with nationwide coverage of gigabit-cable fibre broadband by 2030. Government intervention has been required to ensure hard to reach areas don't miss out. Greater connectivity on road and rail networks will also be required to enable communication on the move and enable the rollout of smart technology to assets and vehicles.

Whilst the government's goals to transition to 5G coverage and rollout of gigabit-cable fibre broadband both focus on coverage, the level of market development in each of these sectors is very different. The 5G transition is in its infancy with many market barriers, including the need for upfront evidence of demand in order to secure the business decision to invest. On the other hand, the rollout of gigabit-cable fibre

broadband to hard-to-reach areas is being encouraged through Government intervention.

Reflecting the importance of affordability across all sectors, once again, the public are clear that affordable bills is the highest priority for the telecommunications sector (with 63% of respondents picking it as one of their top three), mirroring the water and energy results.

Other issues that are important to the public are data security and privacy (half of the public putting this in their top three) and ensuring everyone receives reliable internet service (49%) and mobile coverage (45%).

The lowest priority in this sector is choice, with only one in four respondents placing ensuring consumers have a good range of products and services to choose from in their top three priorities for the sector.

Similar to the other sectors affordability of bills is higher for middle and lower affluent groups and renters compared to homeowners.

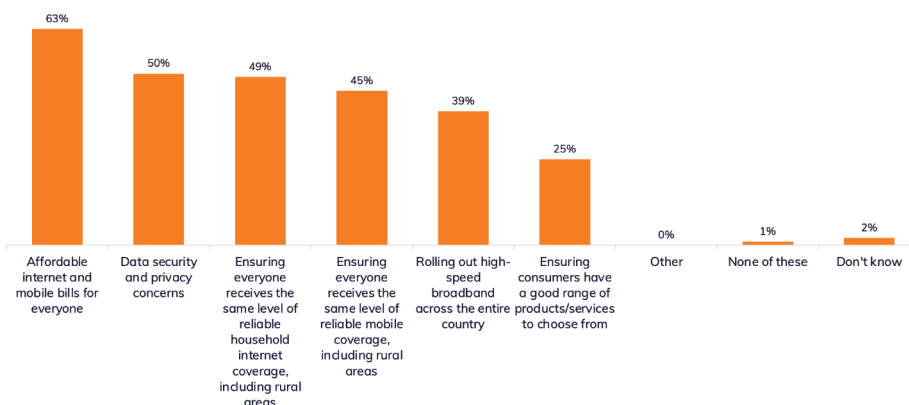
Data security and privacy is a more important priority for women compared to men and homeowners compared to renters. Homeowners also prioritise reliable internet coverage over renters. A reliable internet is also a higher priority along with reliable mobile service for older age groups compared to younger perhaps reflecting that this group is more likely to live in rural areas.

Younger customers are more likely to prioritise a good range of products and services than the older respondents. The rollout of high-speed broadband is more likely to be prioritised by men compared to women and the most affluent potentially reflecting those most likely to use this service.

¹ Standalone technology does not utilise the legacy network used for 3G and 4G

Public priorities in the internet and mobile sector

Q: In the internet and mobile sector, which three of the following priorities do you think are the most important? (n=2002)



HOW DO CUSTOMERS' VIEW UTILITY COMPANIES?

UNDERSTANDING PUBLIC PERCEPTIONS IS CRUCIAL IF WE ARE TO TACKLE THE UNPRECEDENTED CHALLENGES FACING OUR INFRASTRUCTURE

We asked our representative sample of the public to pick up to four words or phrases that best describe their view of companies in these three sectors. Respondents are most positive about internet and broadband companies, who are thought of as more modern, responsive and reliable, friendly and accessible than energy and water companies. Internet and broadband companies are also the most trusted.

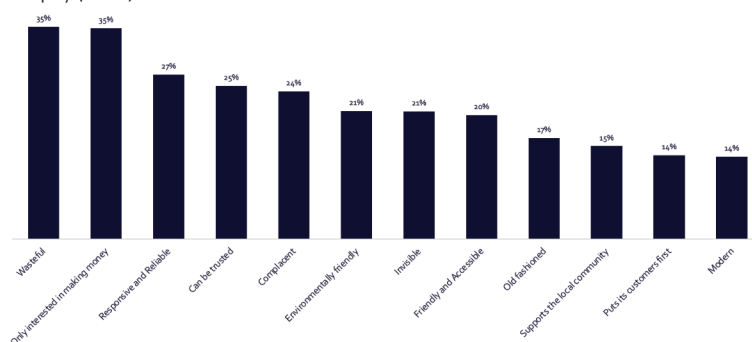
Interestingly, the most frequently chosen responses for internet and broadband are all positive. For gas and electricity three out of the four top responses are positive, whereas for water, the top four responses are split equally with two positive and two negative.

Energy companies are most likely to be viewed as only interested in making money with 45% of customers selecting this as one of their top four descriptions. This is also joint highest ranking for water companies alongside 'wasteful' (both at 32%). For comparison, only 28% customers described internet and broadband companies as only interested in making money.

Internet and broadband have a more positive image with 39% of customers seeing these organisations as 'responsive and reliable'. This compares to 25% for gas & electricity and 25% for water viewing these organisations as responsive and reliable. This positive characteristic is the second most chosen phrase for energy and the third for water. Other positive characteristics chosen for water and energy companies by a fifth to a quarter of the public include 'can be trusted' and 'friendly and accessible'.

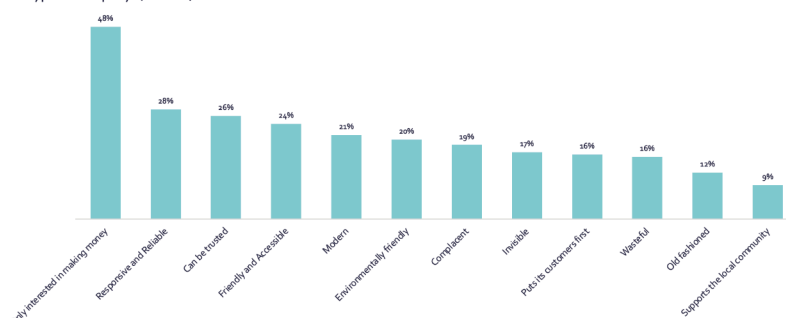
Public perceptions of their water company

Q: Please choose from the following list a maximum of four words or phrases that best describes how you feel about each type of company. (n=2002)



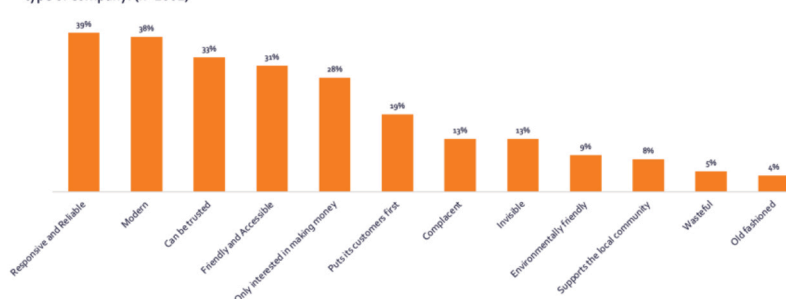
Public perceptions of their gas & electricity company

Q: Please choose from the following list a maximum of four words or phrases that best describes how you feel about each type of company. (n=2002)



Public perceptions of their internet/broadband company

Q: Please choose from the following list a maximum of four words or phrases that best describes how you feel about each type of company. (n=2002)



Water and energy companies are viewed as more environmentally friendly than telecoms companies, with around a fifth of respondents viewing water and energy companies as environmentally friendly, compared to 9% for telecoms. In addition, nearly twice as many respondents view water companies as supporting the local community than energy or telecoms.

In each sector, only one in four customers chose 'can be trusted' as a way to describe the companies. This is higher for internet and broadband (33%) than it is for gas and electricity (24%) and water (23%). There are interesting differences in how levels of trust vary for different age groups with trust in water companies and telecoms highest for the younger age groups. In energy the trust is higher for both the younger and older groups and lowest for the middle age group, potentially reflecting the impact of warm home discounts.

Recent research conducted for Ofwat¹ found water customers were divided on feelings of trust in their water company, with an almost even split between how many people see water companies as trustworthy or untrustworthy.

Looking in more detail at how the responses vary by respondent groups shows that men are consistently more likely to think all three utility sectors are wasteful compared to women.

¹ Ofwat (February 2023), Trust and perceptions: People's views on the water sector.

Interestingly, selecting wasteful increases with age for the water sector whereas it is lower for older respondents in the energy sector.

Homeowners and the most affluent are also more likely to state that the water sector is wasteful compared to renters and the least affluent whereas this is the opposite for energy.

Only being interested in making money is higher for older respondents for water and telecoms whereas in energy it is the middle-aged groups that are most likely to state this compared to the young and old. Homeowners are also most likely to state this compared to renters for water and telecoms.

Renters are more likely to find companies friendly and accessible compared to homeowners across all three sectors. This is also the more likely to be the perception of those in vulnerable circumstances in the water and energy sectors.

Selecting environmentally friendly decreases with age for water and telecoms but is higher for the younger age groups compared to the mid and older groups in energy. Younger groups and renters compared to homeowners are more likely to select supporting the community across all three sectors.



Our infrastructure,
Our bills

DELIVERING THE FUTURE WITHIN TODAY'S CONSTRAINTS

THE WIDER ECONOMIC CONTEXT MAKES FOR A DIFFICULT BALANCING ACT

Cost of living and financing are challenges affecting all sectors

The UK is facing a cost-of-living crisis, seeing a fall in 'real' disposable income driven by inflation fuelled in large part by a rapid increase in energy costs. It is, therefore, no great surprise that, as we saw earlier, affordable bills are the highest priority for the public across all three sectors.

However, there are tensions here as the public's wider priorities – including improving energy security, the water environment and rural telecom services require significant investment.

Increased investment combined with volatile energy costs have the potential to disproportionately impact bills and affordability for lower-income households in the short term, before overall household spending on infrastructure is expected to fall in the medium term, once the investment required for the energy transition away from fossil fuels is in place.

Affordability – especially in the short term and for lower income households in a cost of living crisis, presents tough challenges to fund the required transformation.

This leaves policy makers with a big challenge – how can they 'square the circle' and deliver both improved infrastructure and affordable bills? The key questions are: who pays? and how do they pay?

Infrastructure sectors need to attract private investment to fulfil ambitious policy programmes. Higher interest rates have led to the end of low borrowing costs: increased investment is required at a higher cost than over recent years.

Vital policy questions need to be resolved if we are to create a sustainable infrastructure sector for the future:

How do we balance the increasing need for investment with affordability? How do we overcome concerns around trust in the sectors to enable the required behavioural change?





HOW AFFORDABLE ARE UTILITY BILLS?

CUSTOMERS VIEW AFFORDABILITY AS THE KEY CHALLENGE

Affordability constraints

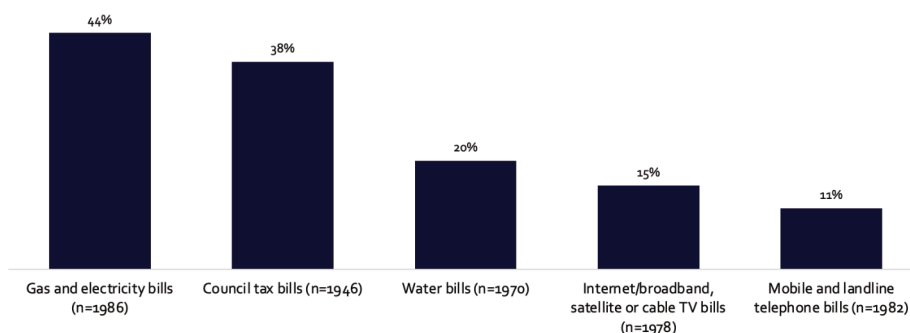
Any increased investment will need to be delivered within the envelope of affordable bills. This will clearly be challenging as four in ten gas and electricity customers find their current bills unaffordable and one in five customers say their water bill is unaffordable.

The chart shows that the affordability challenge is lower for the telecoms sector.

To meet the challenge, regulators and companies will need to seek creative solutions to maximise value.

Number of respondents who consider this utility bill unaffordable

Q: Thinking about your current household finances, how affordable or unaffordable would you describe the following as being?



NB: Excluded Don't know/Not applicable

HOW DOES AFFORDABILITY VARY?

THE AFFORDABILITY CHALLENGE IS NOT EQUAL

Affordability challenges are not felt equally across customer groups. This requires recognition and responses tailored to those facing the biggest challenges.

Affordability challenges are greatest for those in the middle of the age distribution

Interestingly, customers aged 55+ are the least likely to find their bills unaffordable across all bill types.

In general, those aged 35-54 are most likely to find their bills unaffordable.

Younger customers (18-34) also find their mobile and landline telephone bills and water bills equally as unaffordable as 35-54 year olds. The difference between the two lower age groups and the 55+ year groups is significantly different for these bills.

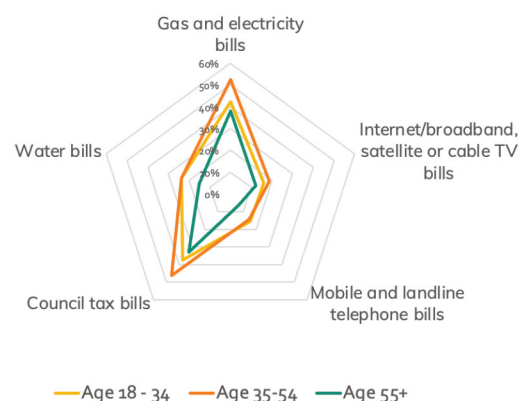
In the sectors with the highest level of unaffordability – energy and council tax – the middle age group (35-54 years olds), is significantly more likely to state that their household bill is unaffordable than both the younger and the older age groups.

Views on internet, broadband, satellite and cable TV bills follow a similar pattern, but here only the middle age group find bills significantly more unaffordable than the older group.

Affordability is a greater challenge for those on lower incomes

We also note difference across socioeconomic

Percentage of the public finding their bills unaffordable by age



groups (which broadly reflect differences in income and occupation). Those in more routine occupations or underemployed are more likely to find their bills unaffordable.



DO UTILITIES PROVIDE VALUE FOR MONEY?

PERCEPTIONS OF VALUE FOR MONEY VARY ACROSS SECTORS AND AGE GROUPS

Value for money is highest for telecoms

Telecommunications are seen as providing the best value for money of the utilities discussed. This is followed by water and sewerage where half of customers (48%) see the sector as good value for money. Only a third of the public feel that electricity (33%) and gas (32%) companies are giving them value for money.

Around 4 in 10 people feel their gas (44%) and electricity (42%) services are poor value for money, compared to 1 in four (25%) for water and only 1 in 10 (11%) for mobile phones.

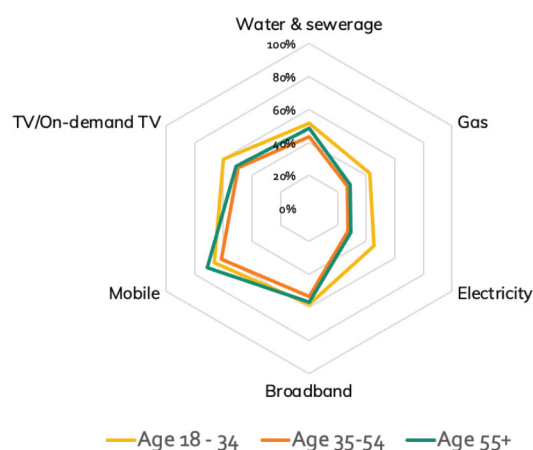
Value for money varies notably by age

In a parallel with affordability challenges, value for money is rated the lowest by the 35-54 age group across all sectors. Younger customer aged 18 to 34 rate value for money the highest in all sectors apart from mobile phones, which are rated highest by those aged 55+.

For both electricity and gas sectors, younger customers aged 18-34 are significantly more likely to say their bill is good value compared to those aged 35-54 and those aged 55+.

This is also the case in the TV/on demand sector. For the water sector the younger customers aged 18-34 are significantly more likely to say their bill represents good value compared to those aged 35-54 only.

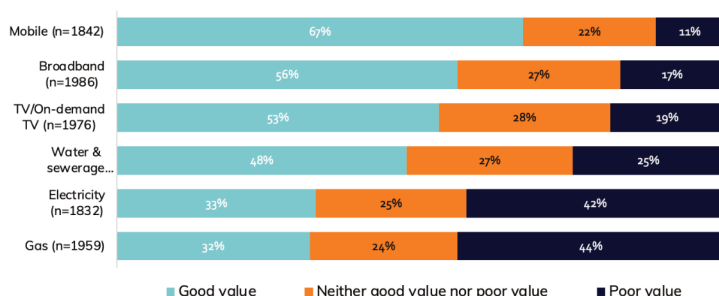
Value for money by age group by sector



For the mobile sector, older customers aged 55+ are significantly more likely to say their bill provides good value compared to those aged 35-54.

Value for money in water and services

Q: How would you rate the value for money of each of these services for your household?



NB: Excluded Don't know / Not applicable

WHO SHOULD PAY FOR INVESTMENT?

VALUE FOR MONEY REQUIRES TRANSPARENCY

For services to provide value for money, customers will need to feel their bills are fair. This will be particularly important given that significant investment is required at a time of affordability challenge.

The sector challenges require upfront investment to secure long term improvements that will benefit both current and future generations. The investment will not be evenly distributed across the UK due to the location of resources, bottlenecks in legacy infrastructure, and differences in consumption levels mean that some households and businesses consume more than others.

This leads to the question - how should the costs of investment be recovered through customers' bills?

The public believe it is important for everyone to contribute for the benefit of all, across the whole of the UK.

Overall, our nationally-representative sample of the general public in England and Wales think

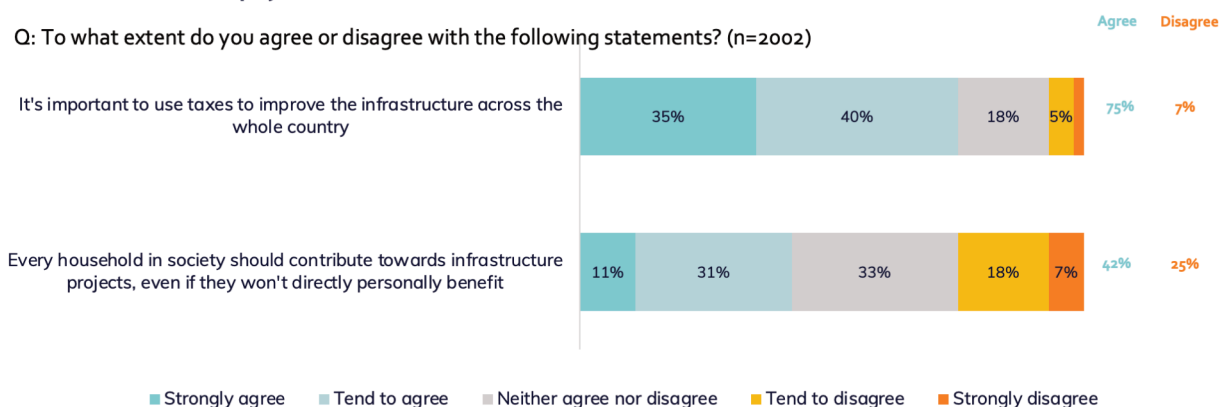
that it is important to use taxes to improve infrastructure across the whole country (75% agree, 7% disagree). This shows that investment is supported and that no area should be left behind.

The public feel that contributing to infrastructure projects is important even if they do not directly benefit themselves (42% agree, 25% disagree). This shows broad support exists for infrastructure projects delivering for the common good, reflecting altruistic motives. This willingness to contribute for the benefit of others increases for those with higher income or less routine occupations-demonstrating that it is potentially constrained by affordability. Overall, there is support for the idea that everyone should contribute across all groups.

This sentiment is reflected in the public's view that protecting current and future consumers is the most important duty of utility regulators (see page 29).

Public views on who pays for investment

Q: To what extent do you agree or disagree with the following statements? (n=2002)



SHOULD BILLS VARY BY LOCATION?

More people would prefer consistent bills regardless of location

The infrastructure investment required to meet the challenges to deliver our future infrastructure is not going to be even across the nation. Pressures from differing regional growth forecasts and impacts of climate change mean that the cost of meeting demand for services is unlikely to be even across regions. Meeting the demand for water supply in already water stressed regions is likely to be higher than in other regions, as more investment will be required. Similarly, the growth in renewables is driving a move to localised generation, that could be enhanced by tailoring bills to reflect local costs. As an example, community support for onshore wind could be increased if the local community received cheaper electricity to reflect the savings made by avoiding transmission of energy across the country from previously centralised power stations.

We asked our nationally-representative sample of the general public in England and Wales whether those living closer to energy production or in areas of higher rainfall, should have lower bills. The public are split on this issue, but more people expressed a preference for bills that do not reflect location and for everyone to contribute towards infrastructure investments.

Younger customers buck the trend and are more likely to agree with water charges that reflect local costs compared to older customers. Those

aged 18-34 are more likely to agree with bills being lower in areas of the country that have higher rainfall and vice versa (45%) than those aged 35-54 (31%) and those aged 55+ (22%). There is a similar trend relating to energy bills being lower for customers closer to the source of production, but it is not as strong.

The conclusion here is that the quest for value for money cannot leave any one region high and dry or out in the cold.

How to reflect usage in charges fairly?

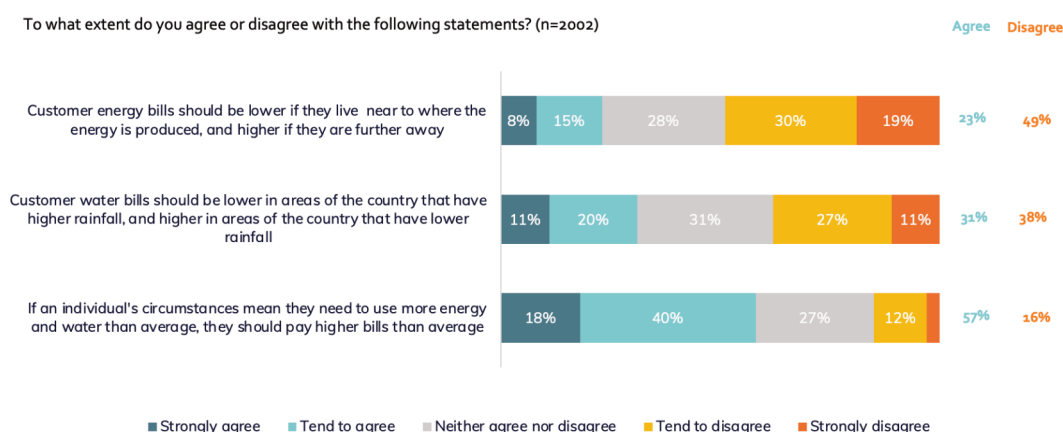
We also tested how (if at all) usage should be linked to bills. This is not a straightforward issue – usage could go up through lifestyle decisions, but also through changes in circumstances that are outside of people's control. The majority believe that people should pay higher bills if their circumstances mean they need to use more energy or water (57% agree, 16% disagree). This view does not change by age or levels of affluence.

This is also consistent with messages that we heard around social tariffs where discounts for elderly customers and those with medical needs for increased water/energy usage are more widely supported than discounts for larger families.

The public view is that lifestyles should not be subsidised, but vulnerability deserves recognition.

Public views on who pays for investment

To what extent do you agree or disagree with the following statements? (n=2002)



WHAT IS THE ROLE OF SOCIAL TARIFFS?

THE DIRECTION OF TRAVEL IS NOT CONSISTENT ACROSS SECTORS

Do social tariffs have a role in enabling investment?

Social tariffs have received significant policy attention in the water sector over recent years. Social tariffs provide a discount to customers in specific, vulnerable circumstances. The objective is to increase the number of customers supported by targeting those who need support the most. Expanding the number of those receiving subsidised bills could help fund the increased investment required to meet climate, population growth and environmental demands without increasing affordability problems. The Consumer Council for Water has also been calling for the different support schemes run by water companies to be standardised through a single national social tariff.

Energy policy has travelled in the opposite direction, phasing out social tariffs in 2011 to rely on other support measures such as the Warm Home Discount. However, there have been calls for a return of social tariffs¹ driven by higher energy prices and growing household

¹ Citizen's Advice (8 March 2023) *Fairer, warmer, cheaper: new energy bill support policies to support British households in an age of high prices*

energy debt². No decisions have been made, but this may be the attractive option given short-term net zero energy investment needs in combination with a less financially resilient customer base.

The current state of play in telecoms sees Ofcom encouraging companies to provide social tariffs, recognising the importance of telecoms services to enable access to modern life, but their provision is discretionary and is not universal.

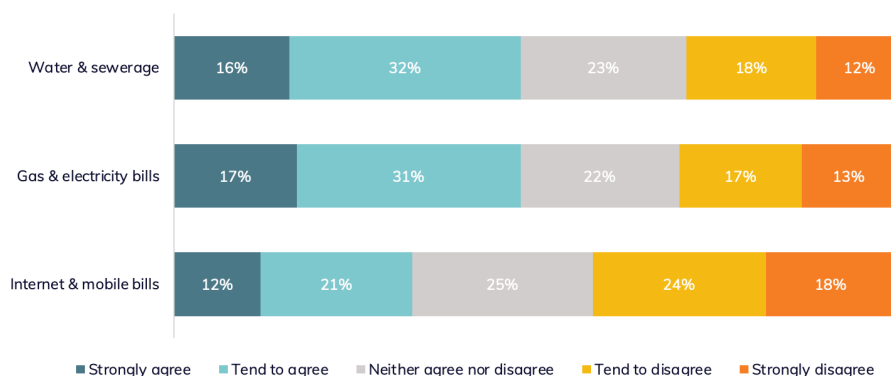
How are social tariffs perceived by the public?

In the water and energy sectors our nationally representative sample of the public view social tariffs positively. Around half (48% for both sectors) support bill reductions for financially vulnerable households with less than a third opposing them (29% and 30%).

² Ofgem (2024) *Affordability and debt in the domestic retail market - call for input* Ofgem report total energy debt and arrears has increased from roughly £2bn to £3bn in the last 12 months.

Public opinion on a policy allowing companies to reduce bills to financially vulnerable households

Q: To what extent do you agree or disagree with this policy for the following types of bills? (n=2002)



However, the opposite is seen for internet and mobile bills, with only a third agreeing with social tariffs (33%) and around four in ten opposing (42%).

This suggests that people differentiate between services required to support life (energy and water) and more discretionary purchases (telecommunications services).

The current position of discretionary social tariffs in the telecoms sector does therefore align with public views currently, but this could change as important services become increasingly digitised, for example GP access is increasingly moving from telephone to internet.

Support for social tariffs is not uniform. It is highest in the younger age groups and declines notably as age increases across all sectors. For example, allowing reductions in energy bills is

more likely to be supported by those aged 18-34 (61%) than those aged 35-54 (49%) who are also more likely to support the policy than those aged 55+ (39%).

Those not supporting social tariffs are most likely to feel it is unfair to expect other bill payers to pay to subsidise others. Rejecting the principle of cross subsidies is almost twice as likely to be given as a reason for not supporting social tariffs as wanting to know what kind of households would benefit. There is concern that subsidies might discourage households from managing their usage or wanting to see the cost to other bill payers before agreeing.

This shows the importance of gaining public support for social tariff qualification criteria, cross subsidy costs and consideration of wider incentives.



Our infrastructure,
All our responsibility

WHO IS RESPONSIBLE FOR DELIVERING OUR INFRASTRUCTURE OF THE FUTURE?

COMPLEX CHALLENGES REQUIRE COLLABORATION

Meeting the complex challenges facing our infrastructure sectors will require an unprecedented level of collaboration between utilities, regulators and customers if we are to adapt to climate change, meet growing energy demand, and win back public trust.

It is important to gauge who the public believe are responsible for solving these challenges because ultimately, the innovative changes required to meet them cannot happen without their support.

The public's expectations vary across our infrastructure sectors

In the telecoms sector, where there is more competition and consumer choice, companies are viewed as most responsible for addressing challenges (60% select companies as one of their top two organisations).

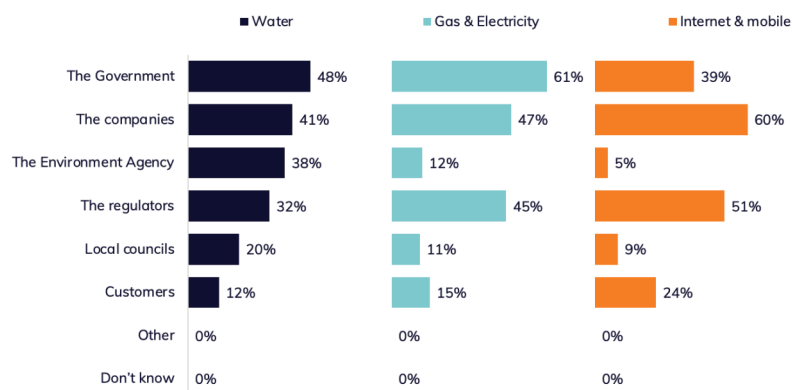
In contrast, the public see the government as most responsible in the energy and water sectors (61% and 48% identified government in their top two).

Views on the level of regulator involvement also vary across sectors, with the proportion selecting the regulator as most responsible higher in the energy (45%) and telecoms (51%) sectors compared to water (32%). The findings for water, perhaps unsurprisingly reflect that public's view that the Environment Agency have a crucial role in this sector. Overall, the findings reinforce the importance of the role of regulation and government in our infrastructure sectors.

In general, the public view customers as having a lower degree of responsibility than public bodies across our three infrastructure sectors.

Public perception of responsibility for addressing industry challenges

Which TWO of the following do you think should have the most responsibility for addressing the challenges facing each of these utility industries?



WHAT IS THE ROLE OF GOVERNMENT?

The public support increased Government involvement in our infrastructure

When our representative sample of the public were asked whether they believed it was more beneficial for the utilities sector to have greater competition between companies or greater government involvement in regulation, 52% express a preference for increased government involvement.

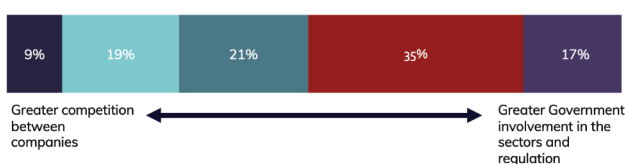
This naturally begs the question: How do the public want to see the government involved?

The most radical form this could take would be returning companies to state ownership.

A fifth (21%) state this solution would be the most likely to win their confidence that their priorities for future utility services would be delivered. This is significantly more than the 13% who believe that greater competition through introducing new companies is the best way forward.

Public preference for competition or government involvement

Q: Thinking generally about these services and the best interests of your household, do you think it is better to have greater competition between companies or greater Government involvement and regulation? Please place your preference on a scale, with one end indicating 'greater competition' and the other end indicating 'greater government involvement.' (n=2002)



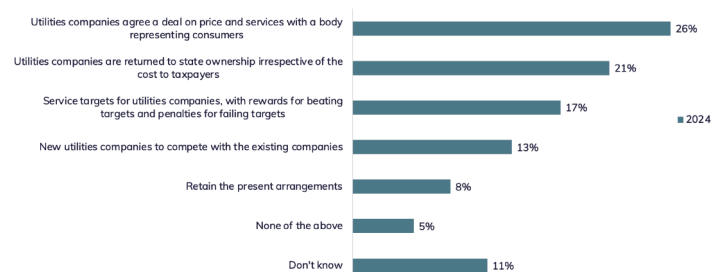
Whilst support for state ownership has grown compared to a similar survey we undertook in 2010 in water (21% now compared to 16% in 2010), it should be noted that other solutions are preferred by the public. The most popular option is for involvement of a consumer body to represent customers (26%).

These findings indicate that jointly consumer representation and accountability have roles to play in enhancing public trust and confidence. Both options seek to establish increased accountability by different means.

Additionally, a quarter (25%) of the public are either in favour of retaining current arrangements or strengthening service targets to incentivise utilities to improve.

Confidence in delivery arrangements for the future

Which ONE, if any, of the following would give you confidence that your priorities for future utilities services would be delivered...?



WHAT IS THE ROLE OF UTILITY REGULATORS?

THE PUBLIC WANT ACCOUNTABILITY

Public understanding of regulators is mixed

Understanding of the role of economic regulators is lowest for the water sector (35% have at least some, or full understanding of Ofwat's role). This may be due to confusion with the Environment Agency which has the highest level of understanding at 68%. Similarly, the Drinking Water Inspectorate has the lowest understanding out of all organisations at 27%.

The public feel accountability - being able to justify decisions and being subject to public scrutiny - is the most important principle for regulators. Accountability is over four times more important than proportionality. Transparency and consistency are also seen as highly important.

We can infer from this that customers are calling for regulators to err on the side of intervening to protect customer interests, rather than worrying unduly about proportionality.

This aligns with the public views we have heard on Government involvement in regulation. The public are looking for consumers to be protected through a more government and regulator led approach that promotes accountability.

The relative importance of all the principles compared to proportionality increases with age. Those 55+ feel accountability is over 6 times more important than proportionality (compared to 4.3 overall and 3 for those 18-34). This strength of feeling is also higher for women than men, but is lower for those less affluent.

Importance of the five principles of regulation identified by the Better Regulation Task Force

Q: Please rank these principles from the one you feel is most important, where 1 is the most important, to the one you feel is least important, where 5 is least important to you. (n=2002)



Definitions shown in the survey

- 1. Proportionality** – Regulators should only intervene when necessary.
- 2. Accountability** – Regulators must be able to justify decisions and be subject to public scrutiny.
- 3. Consistency** – Government rules and standards must be joined up and implemented fairly.
- 4. Transparency** – Regulators should be open and keep regulations simple and user-friendly.
- 5. Targeting** – Regulation should be focused on the problem, and minimise side effects.

The public want regulators to focus on affordable, reliable service and intergenerational fairness.

We also asked our nationally-representative sample of the public to think about the purpose of infrastructure regulators. We asked them to rank the four core duties for regulators identified in the government's smarter regulation programme¹ in order of importance. This includes the new economic growth duty.

Our survey results are presented in terms of intensity of public preference compared to the lowest priority duty – ensuring effective competition (which was ranked as most important by 17% of respondents).

¹ Smarter regulation - GOV.UK (www.gov.uk)

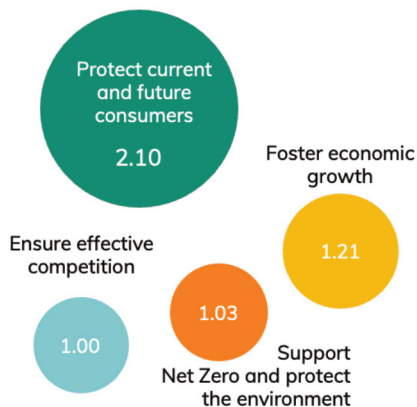
Protecting current and future consumers is clearly viewed as the most important duty of utility regulators by some margin – the chart shows it is over twice as important as ensuring effective competition and protecting the environment.

The new economic growth duty is viewed as being around 60% of the importance of protecting consumers and 20% more important than ensuring effective competition.

It is clear that the public want regulators to balance costs and intergenerational fairness and to ensure an affordable, reliable service. The relative importance of all the duties compared to ensuring effective competition is stronger for women compared to men. As seen in the earlier Our Infrastructure, Our Priorities section of this report, the relative importance of net zero and protecting the environment declines with age.

Importance of proposed core economic duties to the public

Q: Please rank the areas that you think are important for regulators to focus on, where 1 is the most important and 4 is least important. (n=2002)



Core economic regulator duties - definitions shown in the survey

- 1. Fostering economic growth** – Promoting growth through competition, investment and upgrading infrastructure, encouraging innovation and new technologies
- 2. Protecting current and future consumers** – Balancing costs and intergenerational fairness. Ensuring an affordable and reliable service
- 3. Ensuring effective competition** – Promoting competition between companies to drive best value for consumers
- 4. Supporting the government to deliver Net Zero and protecting the environment** – including reducing pollution and making, where necessary, decisions to help the UK reach its target by 2050





HOW TO GET CUSTOMERS ON BOARD?

ENGAGING THE PUBLIC TO DRIVE CHANGE WILL NEED COLLABORATION

Engaging customers and the wider public to drive change is a challenge

As we saw earlier, the public do not generally view themselves – as customers – as being responsible for resolving the challenges whilst delivering our infrastructure of the future. In the water sector, this has halved since 2010 (from 24% in 2010 to 12% now).

This general lack of perceived responsibility among customers poses a significant challenge given the changes required. Furthermore, as we saw in the earlier Our Infrastructure: Our Priorities section of this report, customers see actions that fall within their control (such as reducing water consumption and adopting smart meters) as relatively low priorities in addressing the challenges posed by population growth, shifting demand patterns, and climate change.

This is potentially driven by a lack of customer awareness of the changes required to meet these challenges.

Trust and awareness need to increase to bring consumers on this journey

Consumers will have a major role to play in delivering the changes. Collaborative effort will be needed across all parties to raise customer awareness of how they can help. It is clear that utility companies also need to do more to instil confidence, given the present levels of trust towards water and energy companies.

Only then will customers be receptive to the behavioural changes they will need to make to help secure a sustainable future for the next generation.

What is the role for consumer bodies?

The perceived low level of responsibility on consumers does not mean that they want their voice removed from the conversation. As we saw earlier, the public's most supported arrangements to deliver our infrastructure of the future is for a consumer body to represent them and play an active role in negotiating with companies to protect their interests.

Awareness of existing consumer bodies varies by sector. Citizens Advice, the consumer body for energy, has a high level of familiarity (with 82% having some or full understanding) while the Consumer Council for Water (CCW), the body in the water sector, has much lower recognition (29%).

Whilst awareness of CCW has risen since 2010 (from 8% having some understanding) it is clear they are not well known to the same extent as Citizens Advice.

Does this mean there is a role for citizens' assemblies to build trust and engagement with these sectors?

Our call to action



CONCLUSIONS

WORKING TOGETHER TO ENSURE THE PUBLIC ARE AT THE HEART OF OUR INFRASTRUCTURE DECISION MAKING

Our infrastructure underpins our way of life. As a nation we face substantial challenges to ensure that our infrastructure is fit for our future. Meeting these challenges requires us all to work together – regulators, government, companies, consumer groups, consumers and the wider public.

This report has brought the voice of the public into the heart of thinking about how to deliver our infrastructure fit for our future. This report draws on the evidence gathered via our nationally representative survey combined with our expertise advising utility companies, regulators and government departments for nearly 25 years to identify insight and actions required to deliver our infrastructure, our future.

In order to deliver our infrastructure, our future we will need to:

- Work with consumers to rebuild trust in utilities and bring them on the journey with us, raising awareness of the difference we can all make through our everyday consumption decisions and ensuring that the views and needs of all consumers are built

into infrastructure policies. Only then will customers be receptive to the behavioural changes they will need to make to help secure a sustainable future for the next generation.

- Ensure that strong regulators are accountable and that government and regulators actions are transparently and effectively working in all our interests by protecting current and future consumers.
- Ensure that services are affordable for all. Balancing affordable bills with the investment required is a key challenge. Social tariffs and progressive charging models have a core role to play in squaring this circle.
- Develop the ways that we listen to the public to ensure that their voice is at the heart of the steps we need to take as a nation to meet the challenges and successfully deliver our infrastructure our future.

For further information on our work or the survey, including more detailed analysis of the survey results, contact info@icsconsulting.co.uk

About this research

APPROACH

WE CONDUCTED A ROBUST, NATIONALLY-REPRESENTATIVE POLL OF THE PUBLIC

ICS Consulting designed an online survey in order to bring customer views to the discussion on the future direction of utilities. Where possible, we sought to include questions previously asked in our 'Our Water, Our Future' survey in 2010 to enable robust tracking over time.

We commissioned Watermelon Research to survey 2,002 people in England and Wales from 5th to 9th January 2024. Quotas were set on age, gender, region and Socio-Economic Grade (SEG) to ensure a nationally representative sample. The previous survey included 2,701 participants and took place 12th to 21st November 2010.

ICS Consulting used the outputs of ranking questions to calculate 'odds ratios' (OR) that provide a measure of customers' relative preferences. The results are presented as relative

customer preference 'weights' which reflect the relative utility associated with different options relative to a base case.

For example, the figure below shows the importance of regulatory principles where:

- The base case is specified as the principle of proportionality. The odds ratio for the base case is set at 1 and the other results are presented relative to this.
- The odds ratio for the principle of targeting is 2.1, showing this principle is 2.1 more times important than the principle of proportionality on average.
- At the top of the scale the odds ratio for accountability is 4.3, showing it is 4.3 times more important than the principle of proportionality on average

Importance of the five principles of regulation identified by the Better Regulation Task Force

Q: Please rank these principles from the one you feel is most important, where 1 is the most important, to the one you feel is least important, where 5 is least important to you. (n=2002)



ABOUT ICS

TRUSTED EXPERTS WITH NEARLY 25 YEARS REGULATORY EXPERIENCE

ICS was formed in 2000 with the specific purpose of bringing leading edge Regulatory and Investment Planning to the UK regulated utilities sector: water, energy, and transport. Over the last 24 years ICS have delivered nearly 1,000 individual projects to clients across most of the UK regulated industries.

In 2004, through our involvement in the Yorkshire Water LEADA project, we were instrumental in the development and implementation of monetary risk and social value CBA based investment planning and justification in the UK utility sector. Through PR09 and PR14, we expanded to provide support of this type to 75% of the UK water sector and added the ability to clearly link company plans to customer preferences through willingness to pay and societal valuation. We continued to expand our services to meet industry challenges including the development of incentive mechanisms and stakeholder engagement.

As regulatory frameworks developed and spread across different industry sectors we took the learning from our work across to energy, rail and wider transport. Our reputation led us to be involved in the development of industry and regulatory frameworks such as: the Common Framework for Expenditure Planning in UK water; NOMS/NARMS Methodology for UK Gas Distributors and Gas Transmission; and water tariff and charging principles.

Our team is composed of senior regulatory economists, investment planners and engagement experts who draw on their hands on experience of price controls from both regulator and regulated company perspectives to analyse issues and advise our clients. We are experts in ensuring the voice of the customer is present in decision making, through market-leading engagement such as the survey underpinning this report.

Our strategy for organisational growth has always been organic, ensuring that we have the right specialist skills to deliver the excellent outcomes required by our clients. We have grown slowly but steadily from our initial start-up to 12 people in 2010 and through to the 27 people that we are now. We have a 'top down' consultancy model where our projects are led and delivered by experts in their field and supported by skilled analysts.

For nearly 25 years ICS have remained at the forefront of utility regulation advice and investment planning and gone on to become one of the most respected specialist consultancies in the UK. The vision for ICS is to maintain our position as a relatively small but highly specialist consultancy providing services to asset intensive organisations. Our core services will remain but will be refined to meet the future challenges of the industries and clients that we support.

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