Utilities must be ready for national discontent

The waiting may be over, but the impact of the comprehensive spending review (CSR) on the UK economy has yet to be felt. 2010 may be seen as a somewhat gentle planning prelude to an economic and business cacophony in 2011.

Utility companies, perhaps more than most, must plan for potential deep social discontent as austerity measures take hold of the economy. The coalition government, having garnered post-election public consensus and support for deep cuts, must now implement these immense austerity measures. The challenge won't necessarily be to implement the cuts, but to manage the public's reaction to them.

Utility businesses must plan for many events. At a recent SAMI Consulting scenario planning think-tank, delegates heard about the potential impact of the coalition government's spending review.

> **"The challenge won't be to implement the cuts, but to manage the public's reaction to them"**

● Business continuity planning will become important if nationwide stoppages disrupt many aspects of business operations. Industrial action at Royal Mail could affect the delivery of consumer bills during peak billing periods. Even in a deregulated postal market, the last mile is still dominated by a national monopoly, so getting bills out and revenues in could be seriously affected.

Furthermore, disruption to public transport could leave key employees who resolve these problems – such as call centre staff – stranded at home. Utility companies should test all their business continuity strategies against a range of scenarios to take account of events outside of the norm.

● Trade unions may garner collective member support against the cuts, widening their dispute with the government and combining dissent from both public and private sectors. The oil and communications sectors, as well as utilities, could be hit.

> **"Our invitation to industry is to improve its offer to prepayment meter customers"**

France has been brought to its knees in recent weeks by widespread industrial action triggered by proposed changes to retirement age. More than half the petrol stations in France were without fuel, and capacity at major airports was seriously reduced. UK trade unions may learn from their French counterparts and adopt similar tactics.

Utility companies, many of which have employees who are members of trade unions with large numbers of public sector employees, should assess the impact any extended action (however unofficial) could bring to their operations.

● Current estimates suggest there could be 500,000 job losses in the public sector coupled with 500,000 private sector redundancies. That could significantly affect the number of utility accounts that are in arrears. Significant numbers of householders could struggle to pay their utility bills in 2011 and that could be a "double-dip" blow to utility companies, damaging revenues and profits, and bringing both the cost of utility bills and utility company profits back into the news headlines.

Utility companies should plan for increases in the number of defaulting customers, and for the reactions of press and public to utility bills as public sector cuts bite.

● Reacting to this, regulators may feel they need to react to public unease over utility charges and profits – ignoring the long-term need to invest in core national infrastructure in favour of short-term public acquiescence.

While this is unlikely because the coalition government recognises the need for investment in energy security, the uncertain public reaction to cuts could prompt a precipitate and uneven response to a sector seen as an easy target by the general public.

● In the meantime, a resurgent Labour Party is likely to produce and campaign on a plan to reduce the deficit at the same time as "punishing" those who are seen to have caused it.

This will increase business unease and pose problems for long-term investment planning in a sector where billions of pounds must be invested simply to deliver a business-as-usual service to its consumers.

However the political debate pans out, the coalition's actions may not be enough to sustain the public support for cuts. Utility businesses must plan for the possibility of the UK sailing into the eye of a perfect storm.

Gill Ringland, chief executive and fellow, SAMI

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