

# **Understanding Affordability Pressures in Essential Services**

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## The project has 2 phases

### Phase I (report published January 2015\*)

- How affordability issues are approached in regulated sectors providing essential services, in energy, water and communications.
- What data on prices, expenditure and consumption tells us about the nature of affordability issues in these sectors and the extent to which they are concentrated on particular groups of consumers.
- Mitigating actions regulators and government have taken to help.

### Phase 2 (two work streams during 2015)

- i. An assessment of the cost impacts on future bills in the energy, water, communications and rail sectors.
- ii. Consider where strategies for addressing vulnerability can be aligned across regulators.

\* <http://www.ukrn.org.uk/wp-content/uploads/2015/01/UKRN-Affordability-Report.pdf>

## What are essential services?

- Water and energy are considered essential services for health and well-being
  - But does actual consumption reflect essential use?
  - Rationing
  - Discretionary vs essential use

UKRN work uses actual/estimated consumption

- Communications offer a range of services which vary in their importance to citizens
  - Emergency services
  - Those which enable participation in economic activity
  - Non-essentials such as entertainment services

UKRN work defines essential communications services as basic fixed-line broadband, basic fixed-line voice connections and basic mobile voice and data services,

## Measuring affordability in the UK

Sector	Country	Measures of affordability used by regulator
Water	England and Wales	<ul style="list-style-type: none"> <li>• Bills as a proportion of disposable income after housing costs</li> <li>• Self-reported affordability</li> </ul>
Energy	England	Low income High costs (LIHC) fuel poverty: <ul style="list-style-type: none"> <li>• Number of households in fuel poverty</li> <li>• Fuel poverty gap</li> </ul>
	Wales, Scotland, Northern Ireland	Bills as a proportion of income (10%)
Communications	UK	Range of measures, in particular in relation to telcomms services, % of consumers who are able to purchase the services without incurring undue hardship (survey-based)

## Measuring affordability in the UK

Sector	Country	Affordability measure	No of households facing affordability pressure	% of households	Year
Water	England and Wales	Ofwat 3% measure	5.4 million	23%	2009/10
		Ofwat 5% measure	2.6 million	11%	2009/10
Energy	England	Low income High costs (LIHC) fuel poverty	2.3 million	10%	2012
	Wales	10% measure	0.4 million	30%	2012
	Scotland	10% measure	0.9 million	39%	2013
	Northern Ireland	10% measure	0.3 million	42%	2011
Comms	UK	Range of measures, in particular in relation to telcomms services, % of consumers who are able to purchase the services without incurring undue hardship (survey-based)	0.9 million	4%	2014

## Regulatory role

- Regulatory role depends in part on the market structure
  - in the UK water, energy and communications have very different market structures so some regulators have greater influence over contributory factors than others
- Regulators can play a part in the ability of consumers to access the market or control their consumption
- Can also set rules to protect the most vulnerable consumers (e.g. debt rules)
- But don't have responsibility over incomes, taxes and benefits which also impact affordability and are wider issues for Government

## Help available to consumers

Sector	Examples of help available
Water	<ul style="list-style-type: none"> <li>• Ban on disconnections for non-payment of debt</li> <li>• Help with payment including optional metering, easy billing and payment options</li> <li>• Help with debt e.g. debt write-off and advice</li> <li>• Help through charges e.g. WaterSure scheme, social tariffs</li> <li>• In Scotland, households who receive a discount to their Council Tax charge (e.g. customers on benefits) also receive an equivalent discount to their water bill</li> </ul>
Energy	<p>Regulatory intervention</p> <ul style="list-style-type: none"> <li>• Ban on disconnections for vulnerable consumers in winter months, Energy UK Safety Net</li> <li>• Help with debt e.g. disconnection only as last resort, debt repayment arrangements, advice</li> <li>• Fuel Poor Network Extension scheme</li> </ul> <p>Government schemes</p> <ul style="list-style-type: none"> <li>• Discounts and payments to elderly and vulnerable consumers e.g. Warm Home Discount, Winter Fuel Payments, Cold Weather Payments</li> <li>• Energy efficiency schemes for low income customers</li> <li>• Debt repayment through direct deduction of benefits</li> </ul>
Comms	<ul style="list-style-type: none"> <li>• Universal service providers must offer low-cost tariffs</li> <li>• Fixed voice providers must act proportionately when taking action on non-payment</li> <li>• Price cap on Second Class stamped letters, large letters and small packets</li> </ul>