Understanding affordability pressures in essential services

Report

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About this document

This report covers phase 1 of the project "Understanding affordability pressures across sectors", as set out in the 2014-15 work programme of the UK Regulators Network (UKRN). It provides an overview of approaches to defining and measuring affordability across the regulated sectors providing the essential services of energy, water and communications. The report summarises available evidence on affordability and what regulators do to help address affordability issues in these sectors. It also describes the proposed work which regulators will undertake in phase 2 of the project to look at how to better align their work on tackling affordability problems and assessing the contributory factors which affect the level of bills in these sectors in the future.

About UKRN

UKRN is a network formed by the UK's economic regulators:

- The Civil Aviation Authority (CAA)
- The Financial Conduct Authority (FCA), including the Payment Systems Regulator (PSR)[1]
- Office of Communications (Ofcom)
- Office of Gas and Electricity Markets (Ofgem)
- Water Services Regulation Authority (Ofwat)
- Office of Rail Regulation (ORR)
- Northern Ireland Authority for Utility Regulation (Utility Regulator)

Monitor, the sector regulator for health, participates in the network and its projects as appropriate. The Water Industry Commission for Scotland (WICS) and Legal Services Board (LSB) are contributing members which generally participate in projects as observers.

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The Financial Conduct Authority (FCA), Northern Ireland Authority for Utility Regulation (URegNI) and Water Industry Commission for Scotland (WICS) are observers for this project.

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[1] Although it has competition and consumer protection functions, the FCA is not classed by HM Government as an economic regulator

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1. Summary

Context

1.1. Promoting the participation in regulated markets of all consumers, and especially vulnerable consumers, is a key concern for the UKRN. Consumer concern about the cost of living and recent price rises in some essential services is a significant policy and regulatory driver. A joined-up approach looking at affordability across a number of regulated services is therefore timely, particularly as households tend to consider their expenditure on these services in terms of their combined costs.

1.2. UKRN is undertaking this project with a focus on household affordability in the energy (gas and electricity), water (water and sewerage) and communications (fixed, mobile, internet and post) sectors. Although expenditure on these services forms only a part of total household expenditure, with individual households spending according to their priorities, at least a proportion of expenditure on these services is considered essential. All households potentially have a need for some or all of these services.

1.3. The coverage of the report is UK-wide. We have taken account of the differing geographic responsibilities for regulators in these sectors. Ofcom has responsibility for the communications sector across the UK. Ofwat has responsibility for the water sector in England and Wales, WICS in Scotland, and URegNI in Northern Ireland. Ofgem is responsible for the energy sector (mainly gas and electricity) in Great Britain, with URegNI responsible for energy regulation in Northern Ireland.

1.4. The project is organised in two phases. This report covers phase 1, which considers what affordability means in the context of these sectors, assesses the extent of affordability pressures using quantitative data from regulators and other sources, and summarises the help which is available for consumers who are struggling to afford essential services. The report proposes future work to develop a more coordinated approach among regulators to address affordability problems.

1.5. The essential nature of these services varies, with energy and water considered essential for health and well-being. Communications services cover a wide range of services, which vary in their importance to citizens, from emergency services which are essential for safety of life in some circumstances, to services which enable participation in economic activity and non-essentials such as entertainment services. The report provides an overview of affordability of rail services because they are often seen as essential, both to enable participation in economic activity and to reduce congestion. While we do not consider affordability of financial services, we note that access to these services, in particular bank accounts, may affect affordability of essential services.[2]

1.6. There is no universally accepted definition of affordability. However, in academic literature affordability has been defined as the ability of consumers to pay for a minimum level of a certain service. However, understanding consumer affordability problems is a complex task, because affordability depends on a dynamic interplay between many factors. This includes the size of bills and the proportion of overall spending as part of income. This in turn is affected by the prices of essential services, levels of

[2] Joseph Rowntree Foundation (2010), "Credit and Debt in Low-Income Families", http://www.jrf.org.uk/sites/files/jrf/credit-debt-low-incomes-full.pdf, pp. 12-13.

consumption, efficiency of consumption and demand, billing and payment methods, support by companies and government, and other household spending.

1.7. Defining affordability with respect to a minimum level of service requires identifying a threshold above which a household's ability to pay for the service is compromised. Thresholds based on the share of income or expenditure is recognised as one way of analysing affordability. Quantitative measures can be attractive in so far as they allow comparisons to be made, and tracking of trends over time. However, such indicators have significant limitations. Affordability measures can be calculated in different ways using either income or expenditure. Household expenditure can be calculated before or after housing costs. Spend on a service can also be calculated using either actual spend or estimated spend.

1.8. Different approaches are taken in different sectors. For example: in the energy sector, affordability is approached using the concept of 'fuel poverty'. For England, the Government has moved away from a threshold definition of fuel poverty, when a household spends more than 10% of income to achieve adequate standards of warmth, to a 'low income and high costs' approach following the Hills review.[3] However, the 10% threshold approach is retained in Scotland, Wales and Northern Ireland.

1.9. In water, government's policy position is not to advocate a single measure/definition of affordability. Rather, the focus is on companies to design schemes to help their customers, which take account of local circumstances, needs and the views of their customers. In the communications sector, no threshold exists.

1.10. In the context of essential services, affordability problems can have a significant impact on health and wellbeing, or ability to participate in society. For example, in the energy sector, consuming below the level of accepted thermal comfort may have serious health consequences. The likelihood of a household facing affordability problems depends, among other things, on its circumstances, which may affect consumption and ability to make trade-offs against other costs. This report does not provide a view on the level of bills for these services in terms of what is reasonable for households to pay or a detailed assessment of their reactions to changes in bills. Rather, it seeks to provide a picture of the level of bills in these sectors, the impact of bills on those on low incomes facing affordability pressures and the work that regulators, and others, do to help mitigate these impacts.

1.11. Differences in the structures of these markets, and the role of regulators in them, means that some regulators have a greater influence over the contributory factors than others. Different regulators have certain regulatory responsibilities over prices and in some cases over aspects relating to consumption. But they do not have responsibilities over incomes, taxes and benefits, which also govern consumer affordability. Income, taxes and benefits are wider issues for government.

1.12. In the communications sector, Ofcom's overarching approach to economic regulation is to enable well-functioning markets with a high degree of competition and consumer choice, which has underpinned declines in real prices over the last decade, together with targeted measures to empower

[3] Hills J. (2012), "Getting the Measure of Fuel Poverty. Final Report of the Fuel Poverty Review", https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48297/4662-getting-measure-fuel-pov-final-hills-rpt.pdf

and protect consumers where this is needed. Most retail prices are set by the market.[4] This is also the case in energy where the majority of the bill is made up of wholesale and supply costs, and where competition is the principal tool available to Ofgem to drive down costs and bills and improve consumer choice and service. Networks are covered by price controls set by Ofgem and account for about 20% of the energy bill. However, this does not cover all energy infrastructure investment. Around 7% of the bill also relates to social and environmental costs. In water, the regional monopoly companies are subject to full price control. Thus, regulators across the UK have different roles in regulating prices in their sectors.

1.13. Following a report by the National Audit Office (NAO), "Infrastructure Investment: The Impact on Consumer Bills" (2013)[5], the Public Accounts Committee (PAC) recommended that 'regulators must ensure that their reformed joint-working arrangements deliver a coordinated approach to assessing the impact on bills and affordability of infrastructure investment and that this is carried out in collaboration with Government'. In the next phase of the project, regulators plan to examine the factors which are likely to affect bills over the next 10 years.

Regulators' duties and focus on affordability

1.14. Regulators have a range of duties relevant to affordability, although the phrase is rarely used in their statutes (it is used in the communications sector in relation to universal services). Ofcom must consider consumers' interests in choice, price, quality of service, and value for money. In addition, both basic fixed telephony and postal services are defined by EU and national legislation as universal services and must be secured at an affordable price. Both Ofwat and Ofgem are required by statute to consider the interests of low-income consumers. While affordability is not always a consistently-used term, it is implicit in much of regulators' work across sectors, and is generally reflected in their wider vulnerability strategies.

1.15. Regulators have considered the issue of affordability in their sectors and have taken action to help consumers. In July 2014 Ofcom published a detailed study[6] of affordability of telecommunications services in the UK, building on its earlier work on affordability of postal services.[7] Ofcom considered affordability in relation to the impact that buying the service, or not buying the service, has on consumers and citizens.

1.16. In 2011 Ofwat published an in-depth study of water affordability and debt in England and Wales[8], in which it proposed ways to measure affordability of water services but did not advocate using a particular measure or threshold as a policy objective. In its 2014 price control process (PR14), Ofwat asked companies to develop, in discussion with their customers, a range of measures to tackle affordability problems, including ensuring all bills are fair, management of bad debt and social tariffs.

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[4] A notable exception is that Ofcom sets a price cap on Second Class stamped letters, large letters and small packets.
[5] http://www.nao.org.uk/report/infrastructure-investment-impact-consumer-bills-2/.
[6] http://stakeholders.ofcom.org.uk/market-data-research/other/cross-media/affordability/
[7] Ofcom (2013), "The Affordability of Universal Postal Services", http://stakeholders.ofcom.org.uk/binaries/post/affordability.pdf
[8] http://www.ofwat.gov.uk/future/customers/metering/affordability

1.17. In the energy sector, each devolved administration has differing responsibilities, measurement frameworks and approaches to targets for fuel poverty. In July 2014 the government consulted on its new Fuel Poverty Strategy for England.[9] On 5 December 2014 the Fuel Poverty (England) Regulations 2014 became law. These put in place a new long-term fuel poverty target to ensure that as many fuel poor homes as is reasonably practicable achieve a minimum energy efficiency standard of Band C, by 2030.

1.18. Fuel poverty is one form of vulnerability that a consumer may face. In July 2013 Ofgem published its Consumer Vulnerability Strategy, which sets out its approach and work plan to protect the interests of vulnerable consumers.[10] In 2014, Ofgem carried out qualitative research on energy affordability with its Consumer First Panel[11] alongside other work it undertakes in this area, including the monitoring and publishing of suppliers' debt and disconnection data[12]. In respect of around 20% of the bill, which covers the costs of gas and electricity transmission and distribution, Ofgem reached final conclusions on its latest price control at the end of 2014. In this control, for electricity distribution costs to 2023, Ofgem's actions secured £2.1bn of savings. Ofgem's framework for price controls for gas and electricity distribution networks also includes specific social outcomes and requirements that companies must meet to assist consumers in vulnerable circumstances.

Factors affecting consumers' ability to pay their bills

1.19. This report provides an overview of affordability across the sectors, based on data from regulators and other sources. In gathering this information, several issues emerged with how data on affordability is currently derived and its resulting comparability. We intend to explore how a more common approach to some affordability indicators can be developed in the next phase of the project.

1.20. Analysis of bills shows a different picture across the sectors. Prices for most communications services and, in certain regions, the water sector, have declined in recent years (in real terms). But overall, energy prices, water prices generally and rail fares have increased to varying degrees. The changes in bills for these services can, however, be considered against a wider range of household expenditure, such as on food and clothing. Price rises in some sectors, set against the background of static real incomes, have recently resulted in increased pressures on household budgets, with consumers on low incomes and those in other vulnerable situations feeling the most impact.

1.21. In the water sector in England and Wales the domestic prices are wholly regulated and fund essential investment in the services that customers value or which companies are legally required to provide. In 2014/15, the average combined water and sewerage bill in England and Wales was £396. Looking at the long-term trends, water and sewerage bills have stayed broadly the same since the start of the century - increasing by 4% in real terms over that 15-year period. Between 2015-16 and 2019-20 bills will fall in real terms by 5%, under the final determinations for PR14. In 2011, households in England

[9] https://www.gov.uk/government/consultations/cutting-the-cost-of-keeping-warm-a-new-fuel-poverty-strategy-for-england
[10] https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf
[11] https://www.ofgem.gov.uk/publications-and-updates/ofgem-consumer-first-panel-year-6-first-workshops-affordability-environmental-and-social-schemes
[12] https://www.ofgem.gov.uk/ofgem-publications/92186/annualreport2013finalforpublication.pdf

and Wales were spending on average 1.4% of their income after housing costs on combined water bills (unchanged since 2002-03). In Scotland, the average combined water bill declined by 10% in real terms between 2004-05 and 2013-14.

1.22. In the energy sector consumer bills have been rising in recent years. However, over the longer term the level of household expenditure is not at a historic high. Household energy spend was over 6% of total household expenditure 30 years ago, while it was just under 5% in 2012 on average.[13] However, the share of spend on energy by households in the lowest income decile is nearly three times as high as that of the households in the highest income decile.[14]

1.23. The problem of energy affordability may be particularly acute in Northern Ireland, where fuel poverty rates are particularly high due to a combination of price, income, and other factors. URegNI (Northern Ireland energy regulator) is currently involved in work in several areas to develop solutions to tackle this problem.

1.24. In the communications sector, spending on internet, mobile and fixed voice has remained relatively static in recent years, at just under 4% of household spend, while the quality and choice of services have generally increased.

1.25. It is difficult to present a combined picture of affordability of essential services across all sectors. The different market and regulatory approaches can have an impact. Consumers differ in their needs, circumstances, and other characteristics. Households' affordability pressures may differ depending on the area in which they live. Additionally, since data on affordability measures over time is not available for the water and communications sectors, it is not always possible to draw conclusions about affordability trends (although broader measures such as price and consumption or take-up of services provide useful information about the likelihood of households' experiencing affordability pressures).

1.26. Notwithstanding these issues, available data provides a number of insights regarding the extent of affordability problems in the three sectors. Overall, about 2.3 million households in England (10%) were in fuel poverty (2012); and 4% of UK households experienced problems affording communications services (2014). There is no official definition of water affordability, and therefore no direct equivalent to the fuel poverty measure used in the energy sector. In its affordability report, Ofwat suggested that 2.6 million households in England and Wales (11%) were spending more than 5% of their income on water in 2009-10. The average household spend on water is around 1.4% of income. Ofwat's challenge to companies during the 2014 price review resulted in £3 billion of savings for customers. This has led to bills being 3% less than proposed by the companies and an overall bill reduction across the sector of 5%, in real terms, by 2020.

1.27. Analysis also suggests that affordability pressures affect certain groups of consumers more than others. Low-income households, lone parents with dependent children, couples with dependent children, and

[13] DECC (2014), "UK Housing Energy Fact File: 2013", Table "4f & 4g – Household spend", https://www.gov.uk/government/publications/united-kingdom-housing-energy-fact-file-2013. Share of energy spend for 2012 was estimated by Ofgem using ONS "Family Spending", 2013 Edition, http://www.ons.gov.uk/ons/rel/family-spending/family-spending/index.html.

[14] Ofgem calculations based on ONS "Family Spending", various releases (1994-2013), http://www.ons.gov.uk/ons/rel/family-spending/family-spending/index.html.

working age adults living alone are often at higher risk of experiencing affordability problems than other household types. Sector-specific factors also play a role. In the energy sector these include energy efficiency and housing characteristics (such as housing age and type and fuel used for heating). In the water sector, affordability pressures may be affected by whether a household's water use is metered, and the rateable value of a property, as well as water efficiency advice and devices. Measures taken in the sectors to ease affordability problems are explored later in this report.

1.28. In some sectors affordability of essential services differs across geographical areas. While comparing data isn't straightforward, regional differences in bills can be seen. For example, the data shows that consumers in Wales and the South West and South of England pay more for water and energy than consumers in other regions. If households in these areas have below-average incomes, they face an increased likelihood of experiencing affordability problems.

1.29. In 2012, the latest year for which regional income data is available, consumers in the South West paid up to £99 per annum more for water and sewerage services, than the amount paid on average for these services in England and Wales in that year.[15] Also, in 2012, consumers in the South West paid up to £22 more per annum for electricity and gas combined, compared to national averages. Meanwhile, in 2012, in parts of the South West household annual income was up to £1,100 below UK average.[16] Since April 2013 customers of South West Water have been receiving a £50 annual discount to their water bills.[17] More information on the extent of regional differences can be found in Annex 1.

The help available for consumers

1.30. The impact of affordability problems on consumers differs across sectors. It depends on what help or protection is available, either as result of regulation or direct government help. In many cases, the type of help is similar across sectors.

1.31. In the water sector in England and Wales, there are various ways that companies can help customers pay their bills. Ofwat encourages water companies to work with their customers to develop a package of measures to tackle affordability, including keeping overall bills low, managing bad debt, water efficiency and social tariffs. These include a household opting for metering, easy billing and payment options, and benefits entitlement checks. Help is also available through reduced charges, such as the WaterSure scheme, special tariffs and company social tariffs.[18] Debt write-off and payment matching schemes also exist. Additionally, in England and Wales companies are legally prohibited from disconnecting household consumers for non-payment.

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[15] Bills in South West Water's region have been the highest in the country for many years, because the infrastructure inherited by South West Water at privatisation of the industry needed significant investment to meet the required environmental and drinking water quality standards. The Government responded by funding a £50 discount on the bills of all South West Water's household customers.

[16] Own calculations based on 2012/13 regional water and sewerage bills for England and Wales from Ofwat; DECC (2013), "Quarterly Energy Prices" (March 2013); and ONS (2013), "Regional Gross Disposable Household Income (GDHI) NUTS2 tables.

[17] https://www.gov.uk/government/news/south-west-water-customers-to-receive-50-off-their-water-bills

[18] Ofwat (2011), "Affordable for All. How can we help those who struggle to pay their water bills?", http://www.ofwat.gov.uk/future/customers/metering/affordability/prs_inf_afford.pdf.

1.32. In energy, suppliers are obliged to avoid disconnecting consumers who are of pensionable age, disabled or chronically sick, in the winter months. This is known as the 'Winter Moratorium' on disconnections.[19] Additionally, the six largest suppliers have signed a voluntary code of practice known as the Energy UK Safety Net. Among other measures, this prevents vulnerable customers from getting disconnected at any time of year. Suppliers must recognise that some customers have difficulty paying their energy bills and be proactive in establishing the customer's ability to pay. They must take this into account when setting instalment amounts and agreeing a payment method. Suppliers must also limit price differences between different payment methods. Ofgem also introduced a range of measures to encourage greater consumer engagement and switching following its Retail Market Review.

1.33. There are a range of government programmes available to help consumers pay energy bills, including Warm Home Discount, Winter Fuel Payments, Cold Weather Payments, Energy Company Obligation. By way of example, the Warm Home Discount rebate of £135 a year in 2013-14 benefited about 1.8 million customers.[20] Additionally, Fuel Direct is a scheme that helps indebted customers in receipt of certain benefits to repay their energy debt through direct deduction from benefits.

1.34. In the communications sector, the universal service providers of telephony services are required by Ofcom to offer one or more low-cost tariffs to assist consumers who have difficulty affording telephone services. Ofcom also requires providers of fixed voice services to act proportionately and in a non-discriminatory manner when taking action for non-payment, to give due warning and, where feasible, to confine service interruption to the service concerned (except in cases of fraud or persistent non-payment and/or late-payment). For mobile voice services, the availability of pay-as-you-go services provides an alternative means of managing costs. In relation to post, Ofcom set a price cap on Second Class stamped letters, large letters and small packets to ensure that vulnerable consumers could afford a basic universal postal service.

Phase 2

1.35. Following publication of our phase 1 report, we propose to develop two main work areas in phase 2 of the project, building on existing work being undertaken by regulators and government. We intend to progress this through 2015.

I. Consider where strategies for addressing financial vulnerability can be aligned across regulators

a. This will include developing a more common approach to some affordability indicators, taking into account different sectors, and the nations and regions covered. Regulators will consider joint reporting of data findings which could help flag up issues that regulators could jointly address.

b. Consider coordinating approaches among regulators when developing policies which address financial vulnerability, together with sharing best practice, to improve outcomes for consumers.

[19] Standard Licence Condition 27.10-27.11. Winter months are October – March.
[20] https://www.ofgem.gov.uk/publications-and-updates/warm-home-discount-annual-report-scheme-year-3.

1.36. This will include looking at how a more joined-up approach can help consumers experiencing affordability issues. For example, regulators, in conjunction with relevant stakeholders, could consider how joint approaches to addressing financial vulnerability, such as signposting to third party financial advice or other assistance, would benefit consumers.

II. An assessment of cost impacts on future bills

1.37. Following our analysis of historic bills, we will progress work over the first half of 2015, which will examine the factors which are likely to affect bills over the next ten years. The focus will be on the energy, water, communications and rail sectors and will consider the impacts across different groups of consumers.

2. Introduction and scope

2.1. The purpose of this report is to provide an overview of the extent of affordability pressures on consumers across particular regulated sectors, where the services provided are considered to be essential. The report covers water (including water and sewerage services), energy (gas and electricity) and communications (mobile, internet, fixed voice, post) across the UK. Some information is provided on affordability in the rail sector noting that rail services, while essential for some, are not universal. Affordability of essential services can be affected by lack of access to financial services, for example limited access to bank accounts, but the affordability of financial services is not within the scope of this report.

2.2. The report:

- considers affordability in the context of the duties of the regulators covering these sectors[21];
- summarises how regulators consider affordability in their work;
- presents quantitative evidence on affordability in these sectors gathered from across the regulators and other sources;
- highlights the help currently available for consumers including through regulatory interventions; and
- looks ahead to see how a more co-ordinated approach among the regulators might identify and help consumers with affordability problems in the future in phase 2 of the project.

2.3. The project focuses on domestic consumers. While we recognise that small businesses may face similar issues to domestic consumers in terms of the costs of these services, they are not included in this report.

[21] Ofgem regulates gas and electricity markets in Great Britain.
Ofcom is the communications regulator. It regulates the TV and radio sectors, fixed line telecoms, mobiles, postal services across the UK.
Ofwat is the economic regulator of the water and sewerage industry in England and Wales.
WICS is the regulator for water services in Scotland.
The Utility Regulator for Northern Ireland is the regulator for gas, electricity, and water in Northern Ireland.

3. Overview of affordability and regulation

Defining affordability

3.1. Defining or measuring affordability is not straightforward. There are a number of factors that may contribute to customers facing affordability problems, such as relative and total size of utility bills, housing costs and other outgoings, income, choices customers make about consumption, billing and the help offered to customers.

3.2. In the literature we considered, affordability is usually defined as the ability of consumers to pay for a minimum level of certain service. Affordability can be defined as the share of household *income* that is spent on utility services (sometimes called the affordability ratio). Alternatively, the affordability ratio may be calculated as a share of utility payments in household expenditure. This helps to account for the different sources of a consumer's income over their lifetime and financing their ongoing consumption through other sources such as savings or credit.[22] If the ratio rises above a certain level, this may indicate that the service is becoming unaffordable.[23]

3.3. Affordability ratios have been used with indicative thresholds above which service payments are assumed to be less affordable. Defining such a threshold requires a certain value judgement. Affordability ratios, using either income or expenditure, can be calculated in different ways. Household expenditure can be calculated before or after housing costs, which vary geographically (as do some utility costs). Importantly, in energy you can consider a consumer's actual bill which may be different from the level of spend needed to achieve an adequate level of thermal comfort. In the water sector, the government's policy position is not to advocate a single measure/definition of affordability. Rather, the focus is on companies to design schemes to help their customers, which take account of local circumstances, needs and the views of their customers.

3.4. Some regulators have used a version of the affordability ratio, while others have undertaken consumer surveys, both qualitative and quantitative, to obtain evidence on consumer perceptions of affordability. Additionally, since regulators in the water and energy sectors have remits over different geographical areas, availability and content of the data on affordability of services in these sectors differs accordingly.

3.5. Table 1 summarises the ways affordability is considered in water, energy and communications sectors across the UK. In England and Wales, Ofwat has previously considered a measure of water bill affordability alongside a consumer survey-based measure. For Scotland, Consumer Futures published a study in 2014 of water debt and affordability where it considered water serviced as affordable when households spend 3% or less of their disposable income (before housing costs) on water.[24]

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[22] IFS (2013), "Household Energy Use in Britain: A Distributional Analysis", IFS Report R85, p. 9. http://www.ifs.org.uk/publications/6916.

[23] Fankhauser S. and S. Tepic (2007), "Can poor Consumers Pay for Energy and Water? An Affordability Analysis for Transition Countries", Energy Policy, Vol. 35, p. 1039.

[24] Consumer Futures (2014), "Keeping Your Head above Water. A Study into Household Water Debt in Scotland", p. 37, http://www.consumerfutures.org.uk/files/2014/02/Keeping-your-head-above-water.pdf

3.6. In the energy sector, government uses the concept of 'fuel poverty', rather than affordability, although the two are related in the sense that households in fuel poverty have difficulty affording their energy bills. In July 2013, Government adopted the low income high costs (LIHC) definition of fuel poverty in England following a review by Professor John Hills.[25] Under the LIHC definition of fuel poverty, a household is considered to be fuel poor if it has above-average required energy costs and if meeting its required energy costs would push it below the poverty line (more detail is provided below in the energy section). Prior to this, fuel poverty in England was measured using the '10% measure', under which a household was considered fuel poor if it was spending more than 10% of its income on fuel to achieve adequate standards of warmth. Scotland, Wales, and Northern Ireland continue to use 10% measure of fuel poverty.

3.7. Ofcom has looked at the issue of affordability from the point of view of whether affording the service causes undue hardship.

Table 1: Summary of approaches to measuring affordability across sectors used by regulators

Sector	Country	Measures of affordability used by regulator
Water	England and Wales	• Bills as proportion of disposable income after housing costs • Self-reported affordability
Energy	England	Low Income High Costs (LIHC) fuel poverty measure: • Number of households in fuel poverty • Fuel poverty gap
	Wales, Scotland and Northern Ireland	Bills as proportion of income (10%) measure
Communications	UK	Range of measures, in particular in relation to telecommunications services, % of consumers who are able to purchase the service without incurring undue hardship (survey-based)

Source: Ofwat (2011), "Affordability and Debt 2009-10 – current evidence", DECC (2014), "Annual Fuel Poverty Statistics Report, 2014"; "Results of Research into Consumer Views on the Importance of Communications Services and Their Affordability". Ofcom (2014).

Water – England and Wales

3.8. Government's policy position is not to advocate a single measure/definition of affordability, because analysing and reflecting complex factors and local circumstances means there is limited value in using ratio/threshold measures in this sector.

[25] Hills J. (2012), "Getting the Measure of Fuel Poverty. Final Report of the Fuel Poverty Review", https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48297/4662-getting-measure-fuel-pov-final-hills-rpt.pdf

3.9. In 2011, Ofwat published a review of affordability and debt, for which it sought independent advice on how it should measure affordability. Publishing an affordability review had been one of the recommendations of the independent Walker review, which looked at charging for household water and sewerage services. The report defined households with affordability problems as those that spent more than 3% of their income on water bills.

3.10. In its work, Ofwat considered two indicators: based on share of income, estimated using the Department of Work and Pensions' (DWP) annual Family Resources Survey, and an indicator of self-reported affordability. The indicator of self-reported affordability shows customers' views on whether their bills are affordable or not. The research uses a number of questions to identify this including satisfaction with value for money; perceived bill fairness, and ability to pay.

3.11. Ofwat reports annually on how it will reflect, and has reflected, in its work the priorities set out in the UK Government's Strategic Policy Statement and the Welsh Government's Social and Environmental Guidance, both of which include a priority around action to help customers who struggle to pay their bills. It provides this information in its forward programme and annual report. In 2014 Ofwat reported additionally, at Defra's request, on progress against affordability objectives.

Water – Scotland

3.12. In Scotland, affordability in the water sector is addressed through Charging Principles set by Ministers. In practice, this has meant that price rises have been kept at or below inflation and that charges are related to ability to pay through a direct link to the Council Tax system. Households in lower Council Tax bands pay lower water and sewerage bills, and those who receive a discount to their Council Tax charge (e.g. customers on benefits) also receive an equivalent discount to their bill. [26]

Energy

3.13. Fuel poverty across the UK was previously measured using the 10% measure under which households in fuel poverty have to spend over 10% of their household income on maintaining an adequate standard of warmth. This is usually defined as 21°C for the main living area, and 18°C for other occupied rooms.[27] The 10% measure was calculated as a ratio of the fuel costs required for this consumption in relation to income. Where the value of this ratio was greater than 0.1, the household was considered to be fuel poor.

3.14. To improve the way fuel poverty is measured, a review of fuel poverty definition and measurement was conducted in England in 2012 by Professor John Hills. The 10% measure has a number of disadvantages including, according to the Hills review, making it unduly sensitive to changes in price levels and the risk of misclassifying some better-off households as fuel poor. The Hills review suggested

[26] Based on communications with WICS.
[27] An adequate standard of warmth is more stringent in Scotland, where for elderly and infirm households the required temperature is 23°C in the living room and 18°C in other rooms for 16 hours a day.

a new 'low income high costs' (LIHC) measure of fuel poverty. The Energy Act 2013 established LIHC measure as the new official measure of fuel poverty in England.[28]

3.15. According to LIHC definition, individual households are considered fuel poor if:

- they have above average required fuel costs; and
- they are left with the residual income below the official poverty line after having spent the required amount.

3.16. The Hills report suggested calculating two indicators of overall fuel poverty:

- number of households in fuel poverty; and
- the depth of fuel poverty, or fuel poverty gap, which is calculated as a difference between the fuel cost paid by fuel poor, and average required fuel costs.

3.17. The Department of Energy and Climate Change (DECC) publishes an annual report on fuel poverty. The 2013 edition of the report included fuel poverty for England calculated using the LIHC measure. The LIHC measure for England was calculated for a single year, 1996, as well as for the period 2003-2012. Fuel poverty is a devolved issue and each devolved administration has differing responsibilities, measurement frameworks, and targets where such are in place.

3.18. Devolved administrations also report fuel poverty by different levels of severity, together with strategies and associated targets. The Welsh Assembly defines households that spend more than 20% of their income on fuel as being in *severe fuel poverty*.[29] Similarly, the Scottish Government defines households that have to spend more than 20% of their income to maintain satisfactory heating regime as being in *extreme fuel poverty*.[30] In Northern Ireland *severe fuel poverty* is defined as when households are required to spend more than 15% of income on energy. Households required to spend more than 20% of their income on fuel are considered to be in *extreme fuel poverty*.[31]

3.19. Ofgem has a statutory duty to have regard to the interests of individuals with low incomes. In meeting its duties, it must also have regard to Social and Environmental Guidance issued by the Secretary of State. Ofgem reports to the Secretary of State each year setting out how it has helped the government make progress towards the aims and targets in the Social and Environmental Guidance. Ofgem's

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[28] DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", p. 7, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/319280/Fuel_Poverty_Report_Final.pdf

[29] Welsh Assembly (2010), "Fuel Poverty Strategy 2010", p. 7, http://wales.gov.uk/topics/environmentcountryside/energy/fuelpoverty/strategy/?lang=en

[30] The Scottish Government (2013), "Scottish House Conditions Survey 2012 – Key Findings", p.54, http://www.scotland.gov.uk/Publications/2013/12/3017
The Western Isles Council has also considered fuel poverty definition specific to the Islands' circumstances, with a new category of fuel poverty where 11% of households spend 30% of their income on fuel.
http://www.cne-siar.gov.uk/committees/documents/e-agendas/2014/06-june/environmental/agendas/K%20Item%2011B%20-%20Appendix%201%20Outer%20Hebrides%20Fuel%20Poverty%20Survey.pdf

[31] Housing Executive (2013), "Northern Ireland House Condition Survey", p. 67, http://www.nihe.gov.uk/index/corporate/housing_research/house_condition_survey.htm

Consumer Vulnerability Strategy sets out its insight and policy programme to identify and tackle vulnerability in the energy market.

Communications

3.20. In its 2014 study of essential communications services and affordability, Ofcom used the following definition: "In general, a good or service is considered to be affordable for a consumer if this consumer is able to purchase it without suffering undue hardship."[32] The definition was developed out of research conducted by Ofcom on affordability of postal services in March 2013.[33]

3.21. Ofcom's research on the affordability of communications services tested two facets of affordability: whether purchasing the service results in negative consequences for the consumers, and whether the costs of the service prevent or limit participation. Thus the notion of 'undue hardship' covers a range of affordability issues including: debt, circumstances where the potential advantage of using pre-pay services to manage costs tips over non-usage, use of non-direct debit payment methods, or trading off communications services against other essentials. This concept includes financial and non-financial aspects of consumer detriment.

3.22. To ensure a robust evidence base to assess the affordability of "essential" communications services, Ofcom used a range of data sources, including qualitative and quantitative research on what consumers view as essential communications services and whether essential services are affordable. Ofcom also analysed data on claimed telecommunications spend from the ONS. Ofcom used a mixture of qualitative and quantitative research to combine both depth and breadth of understanding of consumers' views. Both research strands were designed to complement each other, with the qualitative research exploring consumers views in depth and the quantitative research providing a robust picture of views for UK consumers overall, and how these views differ or otherwise among different consumer groups. Ofcom's report on the affordability of universal postal services also used a range of approaches to assess the affordability of these services, including research and analysis of ONS data.

Rail

3.23. While this report does not consider rail in detail, there is a substantial literature that studies the effects of economic and social exclusion arising from lack of access to transport services.[34] It notes the important role that transport plays in enabling people to participate in employment and learning opportunities, access to food shops and health services, and recreational and leisure activities. The cost of public transport is an important determinant of transport accessibility and it has implications for both economic and social exclusion. Research points out that social and distributional effect of

[32] Ofcom (2014), "Results of Research into Consumer Views on the Importance of Communications Services and Their Affordability", p. 9, http://stakeholders.ofcom.org.uk/binaries/research/affordability/affordability_report.pdf
[33] Ofcom (2013), "The Affordability of Universal Postal Services", http://stakeholders.ofcom.org.uk/binaries/post/affordability.pdf
[34] Markovich, J. and K. Lukas (2014), "The Social and Distributional Impacts of Transport: A Literature Review", Transport Studies Unit, University of Oxford, Working Paper 1055, http://www.tsu.ox.ac.uk/pubs/1055-markovich-lucas.pdf.

transport have been viewed as secondary and even tertiary concerns relative to economic and environmental impacts.

3.24. In 2014, ORR published its "Rail Passenger Experience Report" where it briefly reviewed recent trends in rail fares.[35] Department for Transport (DfT) notes the possible negative effects of continuing long-term real rises in fares on social inclusion and the wider economy.[36] A joint report published by DfT and ORR in 2011 had noted that the whole-industry costs should be reduced by up to 30% in order to be comparable with those of selected European countries.[37]

Affordability – contributing factors

3.25. Affordability depends on a number of factors, including incomes, prices and consumption. Factors such as the energy efficiency of homes or climate (cold winters) play a role in consumption and the level of bills.[38] It is difficult to present a combined picture of affordability for essential services across the sectors. The different market and regulatory approaches can also have an impact - for example, a household's affordability pressures may differ depending on the area they live. Customer choices about what they use also impact bills - customers can be empowered to make more active choices to reduce their bills, for example through a water meter and water efficiency advice and devices. Consumers also differ in their needs, circumstances and other characteristics including those which lead them to being in a vulnerable situation. Not all these factors fall within the remit or influence of regulators. In particular, income and income distribution, together with tax are subject to wider socio-economic influences and government policy.

3.26. As previously mentioned, regulators do not always regulate prices. In the communications sector most retail prices are set by the market. In the energy sector only, investment in networks is covered by the price controlled element of the bill, set by Ofgem, which accounts for about 20% of the energy bill. In the water sector, where the companies are regional monopolies, prices are fully controlled.

3.27. Certain bill elements (for example, those related to environmental and social schemes in energy) can be a result of direct government policy. In rail, the level of taxpayer subsidy of fares is also a matter of government policy.

3.28. Where competition duties exist, the regulator has a role in encouraging competition in the market. This competitive pressure can secure lower prices and increased quality of service for consumers than would otherwise be the case. Where policies incur costs to consumers these are considered alongside wider benefits of the policy and are analysed by regulators through impact assessments and other tools.

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[35] ORR (2014), "Rail Passenger Experience Report", pp. 17-19, http://orr.gov.uk/__data/assets/pdf_file/0003/11748/rail-passenger-experience-report.pdf.
[36] DfT (2012), "Reforming Our Railways: Putting the Customer First", p. 17, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/4216/reforming-our-railways.pdf
[37] DfT, ORR (2011), "Realising the Potential of GB Rail: Report of the Rail Value for Money Study – Summary Report", p. 32, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/4204/realising-the-potential-of-gb-rail.pdf.
[38] Miniaci, R., C. Scarpa and P. Valbonesi (2008), "Measuring Affordability of Basic Public Utility Services in Italy", *Giornale degli Economisti e Annali di Economia*, 67(2), pp. 185-230, p. 201.

Regulators' duties related to affordability

3.29. Ofcom must have regard to the interests of consumers in respect of choice, price, quality of service, and value for money in carrying out its principal duties under the Communications Act 2003. In addition, in both the telecommunications and postal sectors, universal services, as defined by EU and national legislation and regulation, must be secured at an affordable price. Ofwat has a duty to protect the interests of consumers, including particular groups of individuals who may be considered vulnerable, which it fulfils through its regulation. Ofgem is also required by statute to have regard to the interests of consumers, including those on low income.

3.30. While regulators have responsibilities related to prices, they clearly do not have powers related to income, which is a key factor defining affordability. Additionally, the powers of regulators and the market contexts differ, resulting in different ways that a well-functioning market is enabled. For example, in the communications sector, Ofcom's overarching approach to economic regulation is to enable well-functioning markets with a high degree of competition and consumer choice. There are a range of measures which Ofcom takes to ensure that goal, including network access regulation. At the retail level, most retail prices are set by the market.[39] In energy, investment in networks is covered by the price controlled element of the bill set by Ofgem, although this does not cover all the costs of energy infrastructure investment, while interventions in the retail market focus on market engagement, consumer protection and customer service. In water regional monopoly companies are subject to price controls set by Ofwat.

3.31. While affordability is not always a consistently-used term, it is implicit in much of the regulators' work, and is generally reflected in their wider vulnerability strategies. While differences between these sectors need to be taken into account, we see real benefit in looking at how approaches on some consumer protections issues can be aligned across the sectors and will consider this further in phase 2 of the project.

Regulators' focus on affordability issues

3.32. Affordability is not a new area of focus for regulators individually. Assistance for consumers facing affordability issues is in place across sectors, through regulatory interventions, as well from government and other parties. This is covered in more detail in section 5 of the report.

3.33. Both Ofwat and Ofcom have published detailed affordability studies. Ofcom's recent study (July 2014) considered the issue of the affordability of communications services for the UK consumers from the point of view of communications services essential for participation, as a subset of a wider range of communications services. Ofcom used a research-based approach which, among other indicators, measured the percentage of consumers who are able to purchase communications services without incurring undue hardship.

3.34. In water, the government's policy position is not to advocate a single measure/definition of affordability. Rather, the focus is on companies to design schemes to help their customers that take account of local circumstances, needs and the views of their customers.

[39] A notable exception is that Ofcom sets a price cap on Second Class stamped letters, large letters and small packets.

3.35. However, in 2011, Ofwat undertook detailed analysis of water affordability and debt in England and Wales, and proposed ways of defining and measuring affordability in this sector. The study also provided analysis of characteristics of consumers experiencing affordability problems and considered the issue of water debt.

3.36. The Department of Energy and Climate Change (DECC) publishes an annual report on fuel poverty in the UK, which analyses trends in fuel poverty and the characteristics of fuel poor households. Ofgem has certain responsibilities in helping deliver the government's fuel poverty strategy, in particular, through the administration of schemes such as Warm Home Discount and the Energy Company Obligation (ECO). It also reports annually to the Secretary of State for Energy on the work it is doing, which includes work through its Consumer Vulnerability Strategy.

4. Affordability pressures across sectors

4.1. This section provides an overview of affordability in energy, water, communications and rail sectors using bill values, share of spend, and sector-specific affordability measures. The information comes from the regulators and other sources. More details about these indicators can be found in Annex 1.

Data and insight across sectors

4.2. The previous section noted that there are differences across sectors with respect to affordability measures and territories covered. Our analysis highlighted additional issues related to comparability of the data and the ability to gain insight on affordability pressures across the sectors.

- *Data refers to different years across sectors* – the affordability measures across sectors refer to different years. Since some of the measures rely on large-scale household survey data (such as fuel poverty measures in energy and water affordability measure in water sector), there can be a time lag of up to two years due time required to collect and process survey data.
- *Availability of data over time* – apart from in energy, there is no readily available data on sector-specific affordability measures over time. Therefore analysing trends in affordability is not possible for the water and communications sectors. However, broader measures, such as trends in prices and consumption are available for comparison.
- *Differences in market structure and how prices are regulated* – the companies in the water sector are regional monopolies with the entire bill subject to price control. In the energy sector, there is competition in the supply part of the market; while the network companies (accounting for around 20% of the bill) operate as regional monopolies subject to price controls. Telecommunications are not subject to price controls.
- *Geographical differences* – in the water and energy sectors the level of bills is different depending on location. Regulators across the sectors also cover different geographies.
- *Sector differences and household* characteristics – for example, energy efficiency characteristics of housing may affect affordability in the energy sector; presence of a water meter, and rateable value of a home, may affect water affordability related to the different bill values for based on these measures.

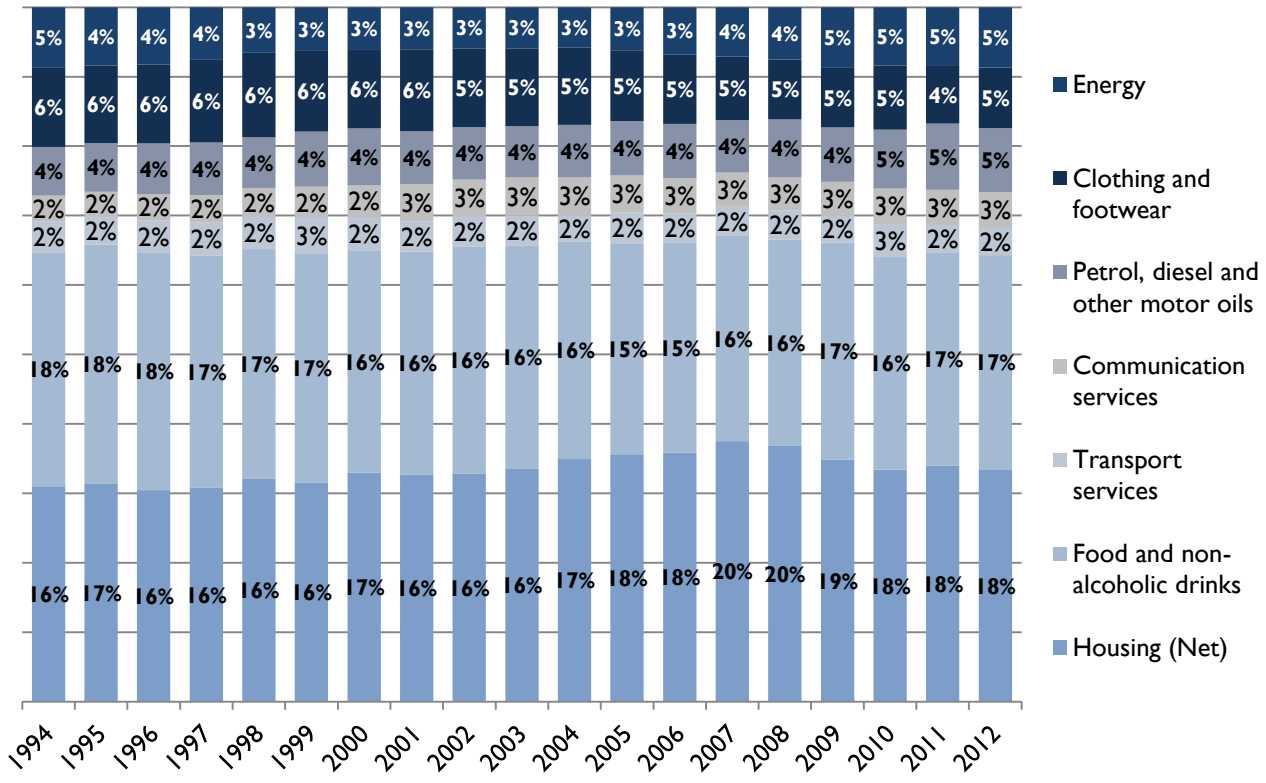
4.3. These differences should be borne in mind when considering evidence on affordability across the sectors. Regulators will look to address this issue in the future by helping to develop, where possible, more consistent reporting.

Overview of trends in bills across the sectors

4.4. In the UK communications sector and the Scottish water sector, bills have generally declined in recent years. Bills in the energy and rail sectors have increased, although to varying degrees (see annex I for more details). In the water sector in England and Wales, water and sewerage bills have stayed broadly

flat since the start of the century - increasing by 4% in real terms over that 15-year period. In context, Figure 1 shows household spend on a range of key goods and services.[40]

Figure 1: Selected spend as a percentage of total household spend for the UK



Source: ONS "Family Spending", various releases (1994-2013), http://www.ons.gov.uk/ons/rel/family-spending/family-spending/index.html; own calculations. Household spend includes housing costs. Energy spend includes spend on electricity, gas and other fuels.

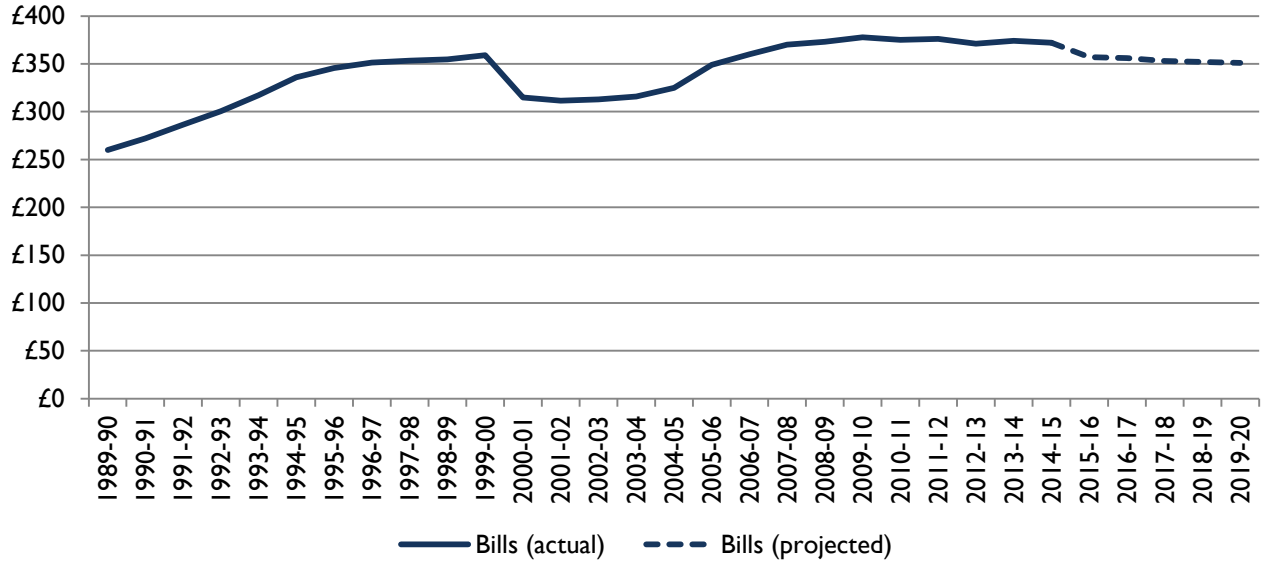
4.5. While increasing prices in some sectors may continue to be offset to a degree by falling prices in others, there may be an upward trend in the share of household across essential services when aggregated. This will continue to be the case if real incomes remain static or decline with the effects felt by consumers on low incomes and those in vulnerable situations.[41,42] A combined picture of future bills across the sectors is not available. However, in the water sector, Defra, Ofwat and the Environment Agency have been developing a model for forecasting water bills. In energy, DECC has published energy bill forecasts under different scenarios.[43] In its report, "Infrastructure Investment:

[40] Energy spend includes spend on electricity, gas and other fuels. Water charges were not included since the underlying data does not separate water charges from other services related to dwelling.
[41] Institute for Fiscal Studies (2014), "The Squeeze on Incomes", IFS Green Budget 2014, Chapter 6, http://www.ifs.org.uk/budgets/gb2014/gb2014_ch6.pdf
[42] New Economics Foundation (2014), "Real Britain Index: A More Accurate Measure of Living Standards", http://www.realbritainindex.org/
[43] DECC (2014), "Updated Energy & Emissions Projections - September 2014", Annex M: Growth Assumptions and Prices, https://www.gov.uk/government/publications/updated-energy-and-emissions-projections-2014.

The Impact on Consumer Bills", 2013[44], the National Audit Office used share-of-spend indicators to provide an aggregate picture of affordability across the energy, water and telecommunications sectors in 2011. It also showed that that those in the lowest decile spent proportionately nearly three times as much of their income on these services.

4.6. The average combined water and sewerage bill in England and Wales is £396 (2014/15). Looking at the long-term trends, water and sewerage bills have stayed broadly flat since the start of the century – increasing by 4% in real terms over that 15-year period. Between 2015-16 and 2019-20, bills will fall in real terms by 5%, under the final determinations for PR14. There are no projections for bills beyond 2020.

Figure 2: Average annual combined water and sewerage bills for England and Wales, (2012/13 prices)

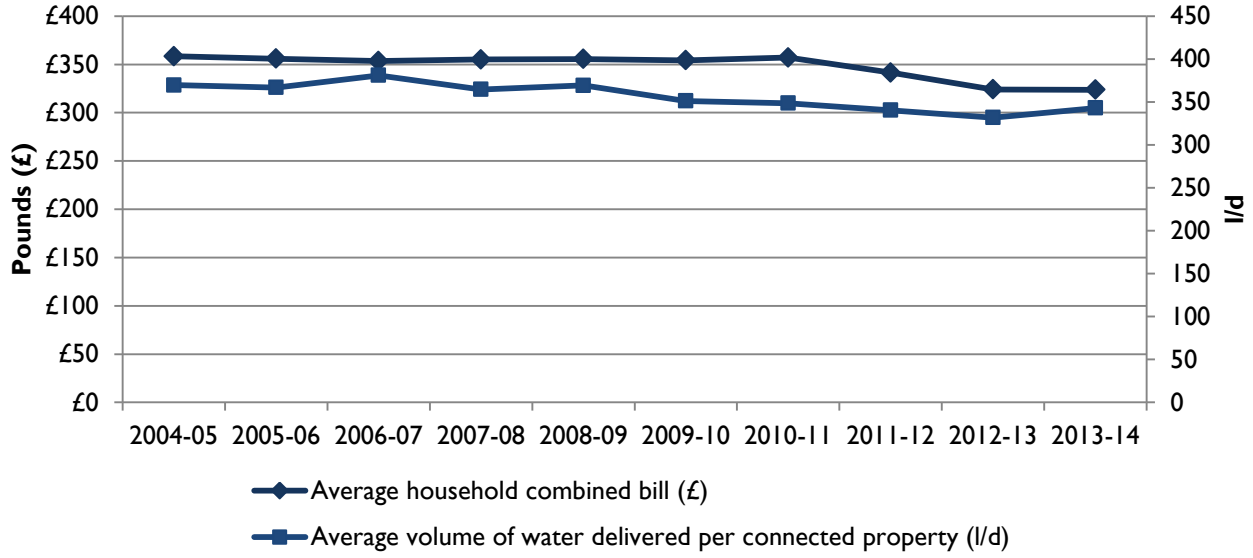


Source: Ofwat. Data is provided for the financial year, April to March.

4.7. In Scotland, between 2004-05 and 2013-14, the average combined bill declined by 10% in real terms. In 2014-15, the average combined bill declined by a further 1% in real terms, down to £320 (2012-13 prices) (Figure 3).

[44] National Audit Office (2013), "Infrastructure Investment: The Impact on Consumer Bills", p. 19, http://www.nao.org.uk/report/infrastructure-investment-impact-consumer-bills-2/.

Figure 3: Average household combined bill (2012-13 prices) and average volume per connected household property, Scotland

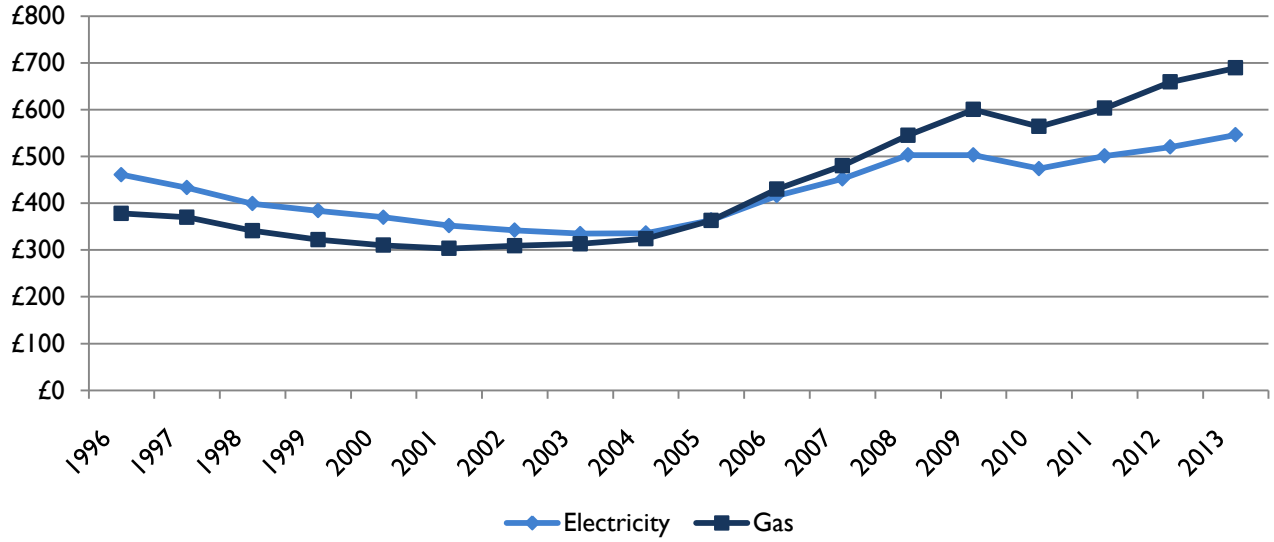


Source: WICS.

4.8. In energy, average electricity and gas bills, based on assumed fixed consumption of 3,800 kWh/year for electricity and 15,000 kWh/year for gas, increased by 63% and 120% respectively in real terms during 2003-2013. This marked increase in bills followed a period of historically low energy prices between 1998 and 2004 (Figure 4 and 5). UK wholesale gas prices have been increasing since the early 2000s, due to upward pressure on prices in Europe and the decline of UK Continental Shelf gas production. Electricity prices have risen, as gas is an important part of the UK generation mix, and also as a result of higher coal prices, wholesale electricity prices rising from unsustainably low levels, and the introduction of the EU Emissions Trading System in 2005.[45] However, it should be noted that bill values are based on fixed consumption and may not reflect some households' actual spend as a result of the falls in energy consumption seen over the period 2003-2013 (see paragraph 7.16). It should also be noted that in 2013 domestic UK electricity and gas prices (including tax) were some of the lowest in the EU-15.[46]

[45] DECC (2014), "Quarterly Energy Prices", September 2014 Update, p. 8, https://www.gov.uk/government/collections/quarterly-energy-prices.
[46] DECC (2014), "Quarterly Energy Prices", September 2014, https://www.gov.uk/government/statistics/quarterly-energy-prices-september-2014 p. 52, p.56.

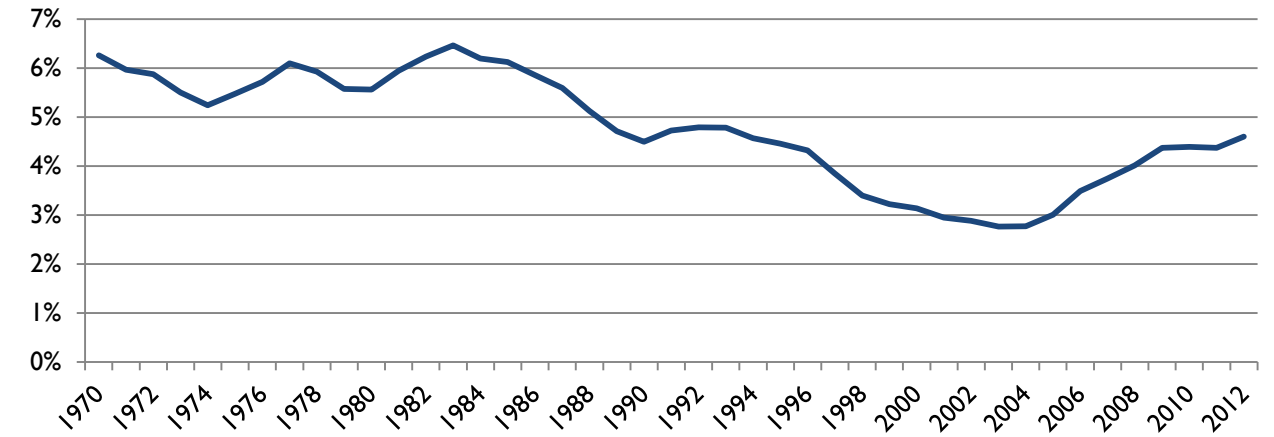
Figure 4: Average annual domestic electricity bills and gas bills based on assumed fixed consumption (2010 prices)



Source: Source: DECC (2014), "Quarterly Energy Prices", Tables 2.2.1 and 2.3.1, September 2014, https://www.gov.uk/government/collections/quarterly-energy-prices,. Average annual domestic gas bills are for GB. Average annual domestic electricity bills are for UK. Electricity bills are estimated assuming an annual consumption of 3,800 kWh. Gas bills are estimated assuming an annual consumption of 15,000 kWh. Figures are inclusive of VAT. Bills deflated to 2010 prices using the GDP (market prices) deflator.

4.9. Recent rises have not necessarily led to a significantly higher or unprecedented levels of household spend when viewed over the longer term. However, the rise in bills from 2004 has been relatively steep, which resulted in average energy spend increasing from around 3% of total household expenditure in 2004 to around 5% of total household expenditure in 2012. In 2012 the average share of household spend on energy was similar to the levels in 1994, although below the levels seen in 1970-1980 (Figure 5).

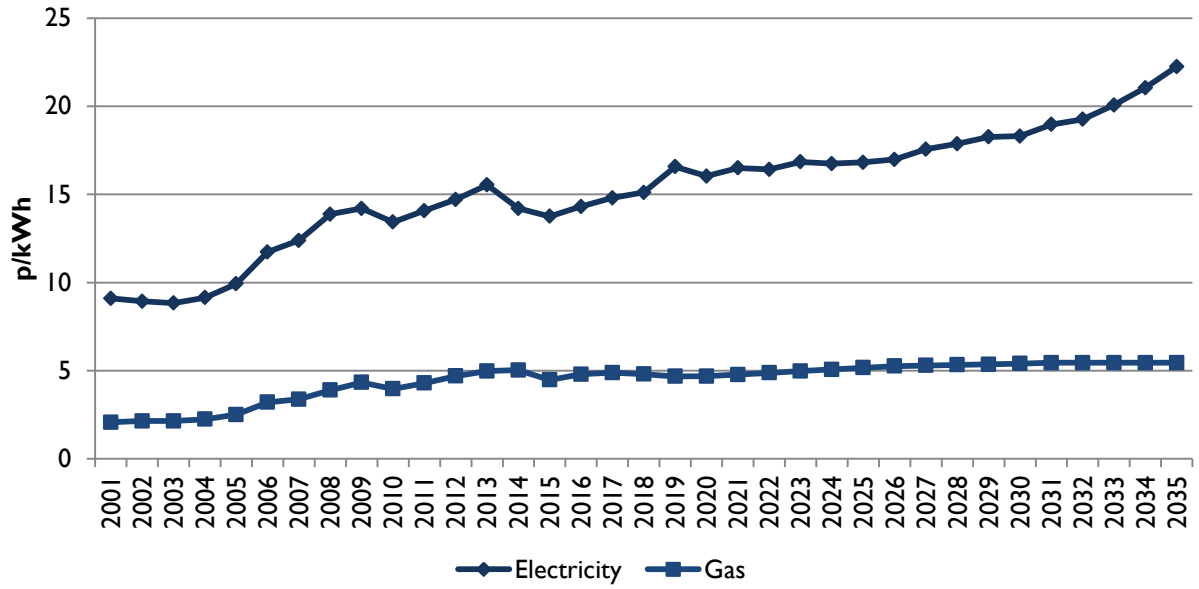
Figure 5: Energy spend as a percentage of total household expenditure, UK



Source: DECC (2014), "UK Housing Energy Fact File: 2013", Table "4f & 4g - Household expend", https://www.gov.uk/government/publications/united-kingdom-housing-energy-fact-file-2013. Data for 2012 was estimated using ONS "Family Spending Survey" 2013 Edition.

4.10. According to DECC projections, under a reference scenario, electricity prices are projected to grow by up to 43% in real terms between 2013 and 2035, while gas prices may grow by up to 10% in real terms (Figure 6).[47] However, these price rises may not lead to a significant rise in bills due to declining consumption as a result of, for example, energy efficiency measures and use of smart meters.

Figure 6: Historic and projected residential energy prices, reference scenario (2014 prices)



Source: DECC (2014), "Updated Energy & Emissions Projections - September 2014", Annex M: Growth Assumptions and Prices, https://www.gov.uk/government/publications/updated-energy-and-emissions-projections-2014. Historical prices up to 2013 are converted to constant prices using the ONS' Gross Domestic Product (GDP) seasonally adjusted deflator series for GDP (Expenditure) at market prices. Yearbook GB series updated 22 May 2014. The GDP deflator for 2013-18 is from the OBR's Economic & Fiscal Outlook, March 2014. For 2019-30 it is from the assumptions used by the OBR in their Fiscal Responsibility.

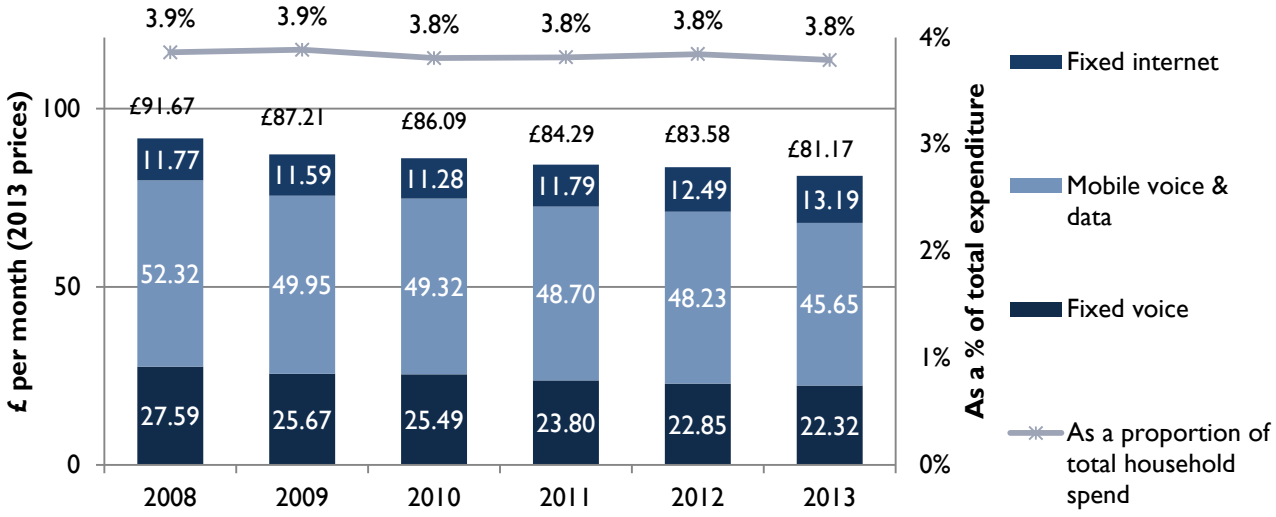
4.11. DECC estimates that the number of households in fuel poverty is projected to increase from 2.28 million in 2012 to 2.33 million in 2014, with increases in energy costs being a key factor.[48] The aggregate fuel poverty gap is projected to increase from £1 billion in 2012, to £1.1 billion in 2014, and the average gap is projected to increase from £443 in 2012 to £480 in 2014.

4.12. In the communications sector, Ofcom monitors and publishes the trends in pricing for the communications services. This is focussed on historic and current prices with analysis of likely near-term pricing developments. With most retail prices set by the market, data on medium- and long-term future prices and bills is generally not available for this sector.

[47] Reference scenario is based on central estimates of economic growth and fossil fuel prices. It contains all agreed policies where decisions on policy design are sufficiently advanced to allow robust estimates of impact.
[48] DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", p. 6, https://www.gov.uk/government/publications/annual-fuel-poverty-statistics-report-2014

4.13. The data shows that household spend on landline, fixed internet and mobile services declined slightly, from 3.9% of total spend in 2008, to 3.8% of total spend in 2013 (Figure 7).

Figure 7: Average household spend on telecommunications services



Source: Ofcom (2014), Communications Market Report 2014, Figure 5.54, http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf. Includes estimates where Ofcom does not receive data from operators; adjusted to CPI; includes VAT.

Future incomes

4.14. According to available data, it appears that the situation of declining real incomes and increasing utility prices (at least in case of some utilities) will continue in the next decade. A recent study carried out for the Resolution Foundation by the Institute for Fiscal Studies and Institute for Employment Research found that the household income of low- and middle-income groups would decline by 2020.[49] In the case of a baseline scenario of steady economic growth, households in low-income groups may see their incomes declining by 15% in real terms between 2008/09 and 2020/21, falling from £10,590 per annum to £9,000 per annum (in 2008/09 prices). Household income of middle-income groups is projected to decline by about 3% in real terms, from £22,960 per annum to £22,200 per annum in 2020/21 (in 2008/09 prices). Families on benefits may see their income decline by 1.7% a year.

Overview of affordability using sector-specific measures

4.15. Apart from income, consumers' ability to respond to rising bills depends on a number of other factors. For example, having dependent children or a family member with long-term sickness or disability means that families are less able to reduce their consumption. Lower incomes, which imply reduced

[49] Resolution Foundation (2012), "Who Gains from Growth? Living Standards in 2020", http://socialwelfare.bl.uk/subject-areas/government-issues/social-policy/resolutionfoundation/136464Who_Gains_from_Growth.pdf.

ability to make trade-offs with other expenditure, when combined with limited access to credit and help to pay for services, result in a higher likelihood of incurring debt.

4.16. In these circumstances the impact on consumers may differ across sectors, depending on particular protections available. For example, in the water sector, consumers cannot be disconnected for non-payment of charges. In the energy sector, there are also certain protections in licence conditions and industry codes that prevent vulnerable consumers from being disconnected. Ofgem monitors and regularly reports the number of disconnections and recent data shows that the level of disconnections is low in both absolute and relative terms. During 2013, 556 electricity and 84 gas disconnections were carried out across Great Britain. However, there may still be a risk of self-disconnection or rationing when a consumer does not top-up their gas or electricity prepayment meter.

4.17. Affordability measures considered by regulators and, in the case of energy using the Government definition, show:

- Water - in 2009-10, around 2.6 million households in England and Wales (11%) were spending more than 5% of their income after housing costs on water and sewerage services;
- Energy - in 2012, around 2.3 million households in England (10%) were in fuel poverty, estimated using the LIHC fuel poverty measure. In addition, according to the latest available data, 0.4 million households in Wales (30%), 0.9 million households in Scotland (39%) and 0.3 million households in Northern Ireland (42%) were in fuel poverty according to the 10% measure.
- Communications - in 2014, around 0.9 million households in the UK (4%) had problems affording communications services.

Table 2: Summary of affordability indicators across sectors – number of households and percentage of households

Sector	Country	Affordability measure	Number of households facing affordability pressures	% 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
	Scotland	Shown in studies[50]			
Energy	England	Low income high costs (LIHC) fuel poverty measure	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
Communications	UK	Ofcom: range of measures in Survey results on % of consumers with affordability issues	0.9 million	4%	2014

Source: Ofwat (2011), "Affordability and Debt 2009-10 – current evidence", DECC (2014), "Annual Fuel Poverty Statistics Report, 2014"; "Scottish House Conditions Survey 2013 – Key Findings", p. 57, Table 31, http://www.scotland.gov.uk/Topics/Statistics/SHCS/Downloads; Wales Fuel Poverty Projection Tool: 2011/12 Report, http://wales.gov.uk/statistics-and-research/wales-fuel-poverty-projection-tool/?lang=en, p. 16, Table 8; Northern Ireland 2011 House Condition Survey, Table 6.5, p. 65, http://www.nihe.gov.uk/index/corporate/housing_research/house_condition_survey.htm, Ofcom (2014), "Results of Research into Consumer Views on the Importance of Communications Services and Their Affordability.

Detailed analysis of sector-specific affordability measures

Water – England and Wales

[50] Eg, Consumer Futures (2014), "Keeping Your Head above Water. A Study into Household Water Debt in Scotland", p. 37, http://www.consumerfutures.org.uk/files/2014/02/Keeping-your-head-above-water.pdf

4.18. Table 3 below shows that the risk of incurring water affordability issues is clearly related to income: 87% (74%) of households in the lowest income decile spend more than 3% (5%) of their income after housing costs on water and sewerage bills.[51] The risk of affordability declines with income: for the households in the fifth income decile, only 11% (1%) of households spend more than 3% (5%) of their income on water and sewerage bills, and for the sixth income decile the respective percentages for these households are 6% and 0%.

[51] This relates to an income of below about £160 a week (or £8,300 a year).

Table 3: Water affordability risks by income decile, England and Wales

Income decile	Spending more than 3% of income	Spending more than 5% of income
1	87%	74%
2	62%	23%
3	42%	8%
4	23%	3%
5	11%	1%
6	6%	–
7	2%	–
8	1%	–
9	1%	–
10	–	–
All households	23%	11%

Source: Ofwat's analysis of Family Resources Survey 2008-09. To calculate income deciles, we divide the population into ten segments – so for example, the 10% of households with the lowest incomes are in the first income decile. These income deciles are calculated using unequivalised income after housing costs. Share of spend is calculated in relation to the same measure of income.

4.19. Ofwat's analysis also shows affordability has most impact on households with lone parents, followed by working-age adults living alone, and single pensioners, is more likely to spend more than 3% and 5% of their income on water bills (Table 4).

Table 4: Water affordability risks by household type, England and Wales

Household type	Spending more than 3% of income	Spending more than 5% of income	Total number of households (million)
Lone parents	42%	18%	1.4
Working-age adults living alone	36%	22%	4.5
Single pensioners	36%	14%	3.6
Pensioner couples	16%	5%	2.6
Couple with children	14%	7%	4.4
Couple without children	13%	6%	4.7

Household type	Spending more than 3% of income	Spending more than 5% of income	Total number of households (million)
Multi-unit and other (for example, two working-age adults sharing a property)	10%	5%	2.1
Total	23%	11%	23.3

Source: Ofwat's analysis of Family Resources Survey 2008-09. Share of spend is calculated in relation to unequivalised income after housing costs.

4.20. The analysis suggests that metering could help many low-occupancy households struggling to afford their bills (Table 5). For example, nearly half of single pensioners without water meters spend more than 3% of their income on water bills, compared with just over a fifth of those with meters. Families and other households with higher numbers of occupants are less likely to benefit from switching to a meter. But many metered single-occupant households still spend a high proportion of their income on water, so metering alone will not address affordability for this group.

Table 5: Water affordability risk by household type and payment method, England and Wales

Household receiving Benefits	Households spending more than 3%		Households spending more than 5%	
	Metered	Unmetered	Metered	Unmetered
Lone parent	38%	43%	20%	17%
Working age adult living alone	27%	40%	17%	24%
Single pensioner	21%	47%	9%	17%
Couple with children	15%	13%	8%	6%
Other	11%	10%	7%	4%
Couple without children	11%	14%	6%	7%
Pensioner couple	10%	20%	3%	6%
Total	18%	26%	9%	12%

Source: Ofwat's analysis of Family Resources Survey 2008-09.

4.21. A pilot study by South West Water on water affordability found that about 60% of 'vulnerable' households could save money if they had a water meter. About two-thirds of these later had one installed. Most of these (96%) had reduced their bills within a year of having a meter installed, with an average reduction in bills of £267 (49%).

4.22. Many customers who could benefit from a water meter remain on unmetered charges – including about two million single pensioners and more than three million working-age adults living alone. There are several possible reasons for this: i) customers may not know that they can have a free meter installed – or may not know that this could save them money; ii) some customers are sceptical of metered charging, fearing that this will lead to higher future bills become more expensive and that they will end up paying for leaks; iii) other customers may be aware that they can have a water meter installed, but consider the saving too small or the process of getting a meter installed too much of a problem to bother with.

4.23. Households claiming benefits are proportionately much more likely to spend more than 3% or 5% of their income on water bills (Table 6). Ofwat research shows that about 60% of households that spend more than either 3% or 5% of their income on water bills did not receive benefits.

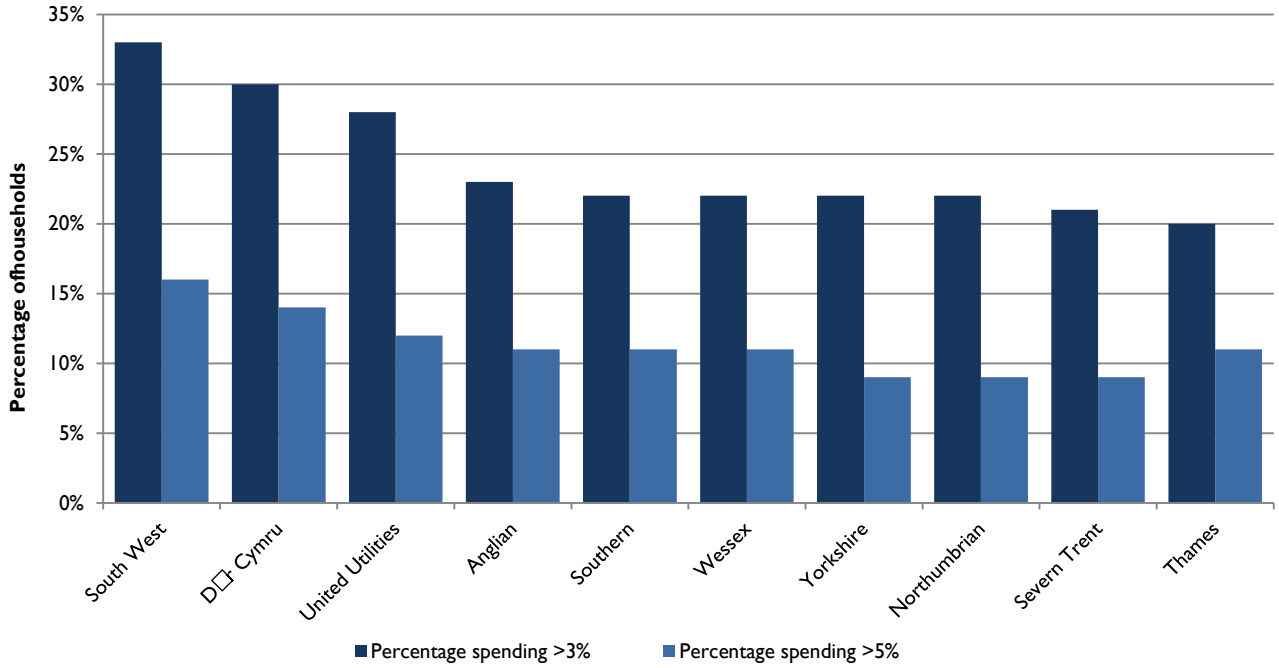
Table 6: Water affordability risks by benefits, England and Wales

Household receiving benefits	Spending more than 3% of income	Spending more than 5% of income
Yes	57%	20%
No	17%	9%

Source: Ofwat's analysis of Family Resources Survey 2008-09.

4.24. Whether high water bills contribute to affordability risks depends on the income levels in the area of company operation. That is, higher bills may result in higher affordability risks where incomes are lower, but are less likely to result in affordability risks where incomes are higher. Figure 8 below shows how affordability varied across the companies in 2008-09.

Figure 8: Proportion of households spending more than 3% and 5% of income on water and sewerage bills, by sewerage company area, England and Wales (2008-09)



Source: Ofwat's analysis of Family Resources Survey, 2008-09. The analysis is for areas covered by companies providing both water and sewerage services only. This is because of the small sample size problems with the Family Resources Survey data. So, smaller areas may have individual problems.

4.25. This shows that the companies that have the highest proportion of households spending more than 3% of income are South West Water, Dŵr Cymru and United Utilities. All three have relatively high water bills, and are, on average, areas with relatively low household incomes. Wessex Water, Anglian Water and Southern Water also have relatively high bills, but average incomes in these areas are higher. Thames Water and Severn Trent have a relatively low proportion of households with affordability risks because of their relatively low bills.

4.26. As mentioned above, Ofwat also uses a self-reported measure of affordability derived from a survey conducted by the Consumer Council for Water (CCWater). In its 2010-11 tracking survey of consumers in England and Wales, CCWater found that 14% of customers in England and Wales said that their bills were unaffordable.[52] [53] This increased to one in four in the South West of England, where bills are the highest in England and Wales.

4.27. In its 2010-11 tracking survey, CCWater found that customers in the lower socio-economic groups were more likely to disagree with the statement that their charges were affordable. In 2009, CCWater's tracking research found that those customers who were less likely to agree that their

[52] CCWater (2011), "Consumer Tracking Survey 2010", http://www.ccwater.org.uk/wp-content/uploads/2013/12/Consumer-Council-for-Water-Annual-Tracking-Survey-201011.pdf

[53] It should be pointed out that the survey is not statistically representative of the population of England and Wales.

charges were affordable: i) were in lower socio-economic groups (64%); ii) were renting properties from social landlords (62%); or iii) had a disability of or long-term health condition (60%). Metered customers were more likely to consider their bills affordable (80% versus 72%). The research also found that household customers with incomes below £20,000 and those who were unemployed were much more likely to report affordability problems.

Energy

4.28. As described earlier in the report, the devolved governments use the concept of fuel poverty to identify consumers who have difficulties paying their energy bills. Fuel poverty is a devolved issue and each devolved administration has differing responsibilities and measurement frameworks. Scotland, Wales and Northern Ireland use the 10% measure, under which a household is considered to be fuel poor if they are required to spend more than 10% of their income on energy to achieve an acceptable standard of warmth.

4.29. Since 2013 England have been using the low income high costs (LIHC) measure of fuel poverty. According to the LIHC definition, households are considered fuel poor if they have above average required fuel costs and they are left with the residual income below official poverty line after having spent the required amount.

4.30. Below we show the values for the LIHC fuel poverty measure for England and of the 10% measure for Scotland, Wales and Northern Ireland. The data for the LIHC fuel poverty measure for England is from the DECC 2014 annual report on fuel poverty statistics.[54] Fuel poverty data for Scotland, Wales and Northern Ireland were sourced from the latest national reports available at the time of publication: the Scottish House Condition Survey, Welsh Government fuel poverty projection tool, and Northern Ireland Housing Condition Survey respectively.[55]

4.31. The latest year for which fuel poverty data is available differs across nations. In case of England and Wales the latest data is for 2012, for Scotland its 2013 and for Northern Ireland its 2011. Where the data is available, fuel poverty measures are provided for several years to illustrate trends.

4.32. The characteristics of fuel poor households is analysed where data is available. For England, we provide a breakdown of the LIHC fuel poverty measure by income, household composition, age and vulnerability. Additionally, we note the importance of housing characteristics (energy efficiency, housing age and area) for fuel poverty. Fuel poverty by household type and income is provided for Scotland and Northern Ireland. Fuel poverty by household vulnerability and type of housing is provided for Wales.

4.33. The rest of the section provides an overview of fuel poverty in England, Scotland, Northern Ireland and Wales.

Fuel poverty in England

[54] https://www.gov.uk/government/statistics/annual-fuel-poverty-statistics-report-2014
[55] http://www.scotland.gov.uk/Topics/Statistics/SHCS
http://wales.gov.uk/topics/environmentcountryside/energy/fuelpoverty/?lang=en,
http://www.nihe.gov.uk/index/corporate/housing_research/house_condition_survey.htm

4.34. As was mentioned earlier in the report, since 2013, fuel poverty in England is measured using the low income high costs (LIHC) measure. Under the LIHC definition, household is considered fuel poor if it has above average required fuel costs and it is left with the residual income below the official poverty line after having spent the required amount.

4.35. The LIHC measure of fuel poverty is a twin indicator consisting of:

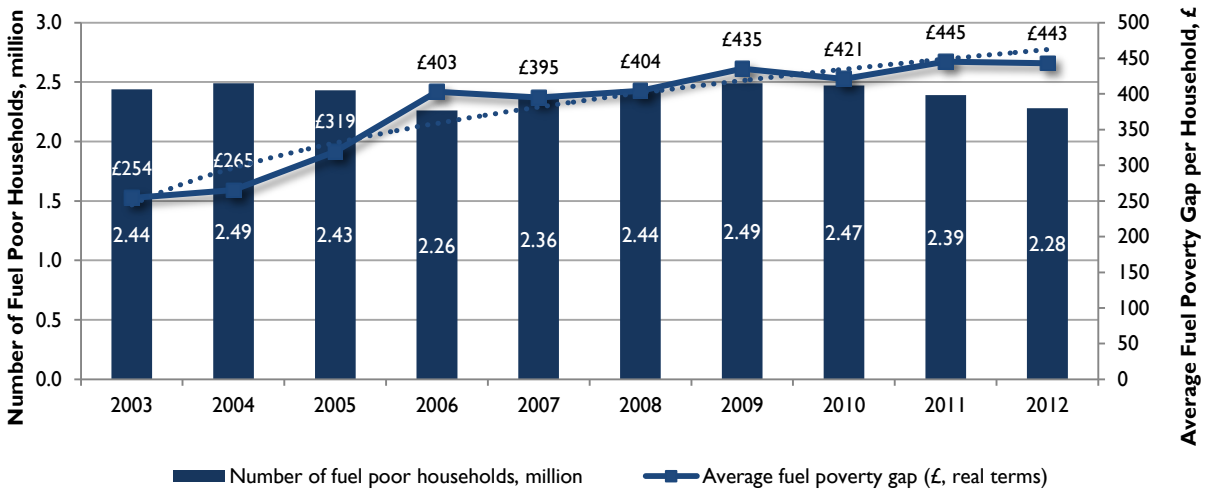
- *number* of households in fuel poverty; and
- *the depth of fuel poverty, or fuel poverty gap,* which is calculated as a difference between the fuel cost paid by fuel poor, and average required fuel costs.

4.36. The LIHC measure is calculated using the data from the English Housing Survey (EHS). Data on historic fuel poverty gap values is provided using 2012 prices.

4.37. The latest DECC's Annual Fuel Poverty Statistics Report published in 2014 contains data on fuel poverty in England for 2012. Under the LIHC measure, there were 2.3 million fuel poor households in England in 2012. This corresponded to around 10% of all English households. The LIHC measure, which was calculated back to 2003, did not show a significant change in the number of fuel poor households during 2003-2012, with the number of fuel poor households fluctuating between 2.3 and 2.5 million during this period (Figure 9).

4.38. However, average fuel poverty gap per fuel poor household increased significantly during this period, from £254 in 2003 to £443 in 2012 (74% increase in real terms), suggesting that fuel poor households were under increased pressure trying to meet energy costs.

Figure 9: Fuel poverty and average fuel poverty gap under the LIHC measure, 2003-2012



Source: DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", Trends in Fuel Poverty, England, 2003-2012, Table 1, https://www.gov.uk/government/publications/annual-fuel-poverty-statistics-report-2014.

4.39. The rest of this section considers the incidence of fuel poverty among English households by several socio-economic characteristics, such as income, household type, age and vulnerability. We also note

the importance of housing characteristics in relation to the risk of fuel poverty, as well as reviewing the incidence of fuel poverty by payment method.

4.40. By definition, households classified as fuel poor under the LIHC measure belong only to the lower income deciles. In 2012, nearly three-quarters (74%) of the fuel poor came from the two lowest income deciles, while just over one-quarter (26%) came from the third and the fourth combined income decile (Table 7).

4.41. Looking at the incidence of fuel poverty *within* income decile groups in 2012, 41% of households in the lowest income decile were fuel poor; 36% of households in the second income decile were fuel poor; in the third and fourth combined income decile, 13% of households were fuel poor. The households in the lowest income decile also faced the largest average fuel poverty gap: £469 compared to the average fuel poverty gap for all population of £443.

Table 7: Fuel poor households by income decile group, England, 2012, LIHC measure

After Housing Costs (AHC) equivalised income decile group	Proportion of households fuel poor (%)	Proportion of group fuel poor (%)	Number of fuel poor households (000's)	Average fuel poverty gap (£)
1st decile - lowest income	39%	41%	897	£469
2nd decile	35%	36%	797	£413
3rd and 4th deciles	26%	13%	589	£445
5th-10th deciles - highest incomes	-	-	-	-
All households	100%	10%	2,283	£443

Source: DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", Detailed Tables Low Income High Costs Measure, Table 17.

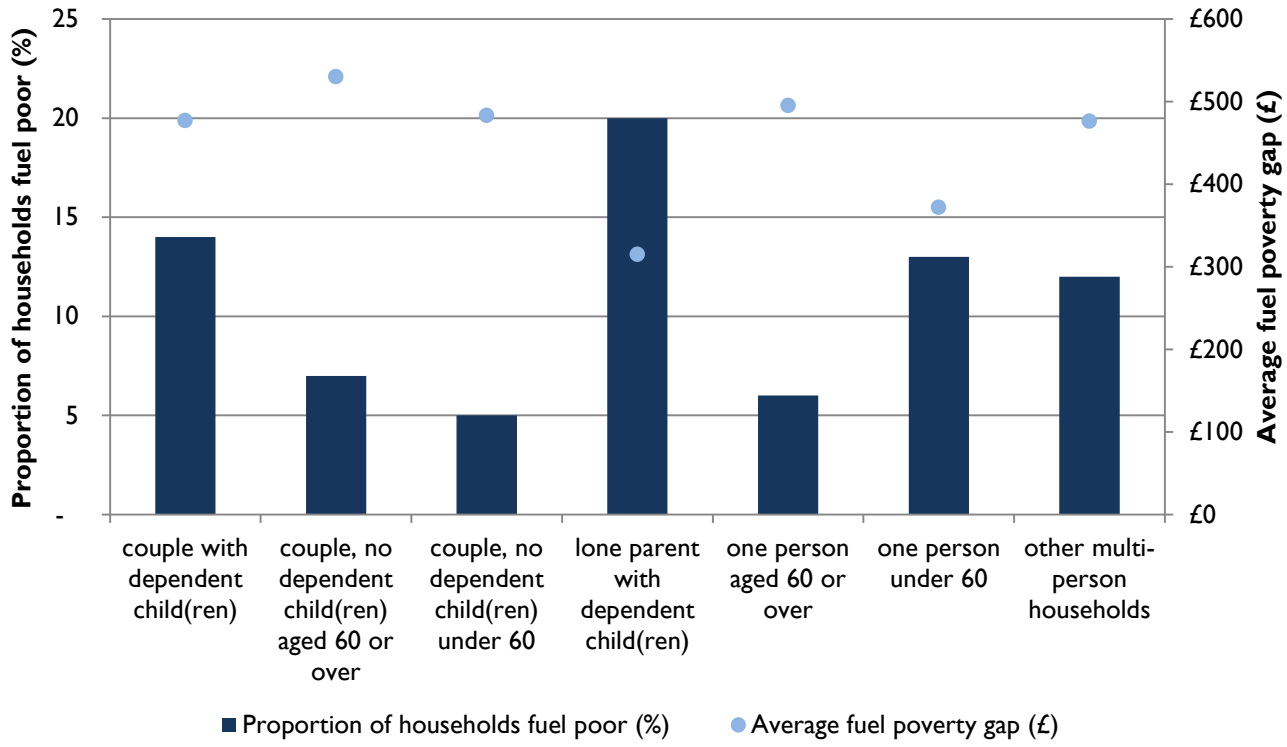
4.42. Figure 10 shows fuel poverty rates and average fuel poverty gap across household types. If we look at fuel poverty *within each household type*, in 2012, lone parents with dependent children had the highest fuel poverty rate, with around a fifth of all lone parents (20%) classified as fuel poor. This is partly due to this group having lower incomes after housing costs. Also, larger households, in particular those with dependent children, are more likely to be fuel poor than smaller households and households with no dependent children. For example, 14% of couples with dependent children were fuel poor in 2012, compared to 6% of couples with no dependent children.

4.43. When we look at *all fuel poor households*, couples with dependent children, single people under 60, and lone parents with dependent children account for nearly two-thirds of the fuel poor. Couples with dependent children account for around 30% of all fuel poor households, followed by single persons under 60 (17%) and lone parents with dependent children (15%). Studies also show that households with disabled children experience higher levels of fuel poverty.[56]

4.44. However, in terms of depth of fuel poverty, as measured by fuel poverty gap, the two groups with the highest average fuel poverty gap are couples with no dependent children aged over 60 and single persons aged over 60. These two groups have an average fuel poverty gap of £530 and £495 respectively, compared to an average fuel poverty gap of £443 for all households. Thus, while these two groups are less likely to be fuel poor, they experience more significant depth of fuel poverty, presumably due to higher and/or longer heating requirements relative to other groups.

[56] EAGA/University of Leicester – The Energy Penalty – disability and fuel poverty https://www2.le.ac.uk/departments/law/research/cces/documents/the-energy-penalty-disability-and-fuel-poverty-pdf

Figure 10: Fuel poverty and average fuel poverty gap by household composition, England, 2012, LIHC measure

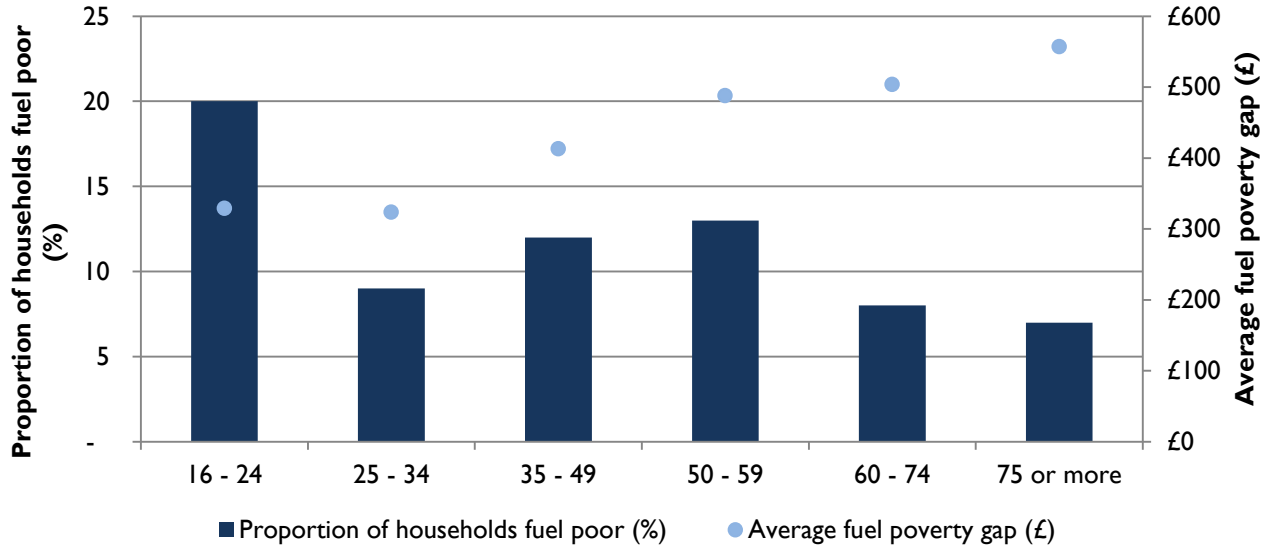


Source: DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", Detailed Tables Low Income High Costs Measure, Table 5.

4.45. When looking at the incidence of fuel poverty by age, it is most prevalent amongst the under 25 year olds, with around one in five such households (20%) classed as fuel poor in 2012 (Figure 11). This compares to 7% in the over 60 group. This is explained by the relatively low incomes of those aged 16-24, as well by the fact that younger people tend to live in privately rented accommodation, which tends to be less energy efficient and thus have higher fuel costs.

4.46. However, when looking at all fuel poor households, nearly half (49%) of the fuel poor households in 2012 in England contained a person aged over 50. In contrast, households in which the oldest person was aged 16-24 constitute only 6% of all fuel poor households. The former group also had a higher fuel poverty gap than other groups.

Figure 11: Fuel poverty and average fuel poverty gap by age of oldest household occupant, England, 2012, LIHC measure



Source: DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", Detailed Tables Low Income High Costs Measure, Table 7.

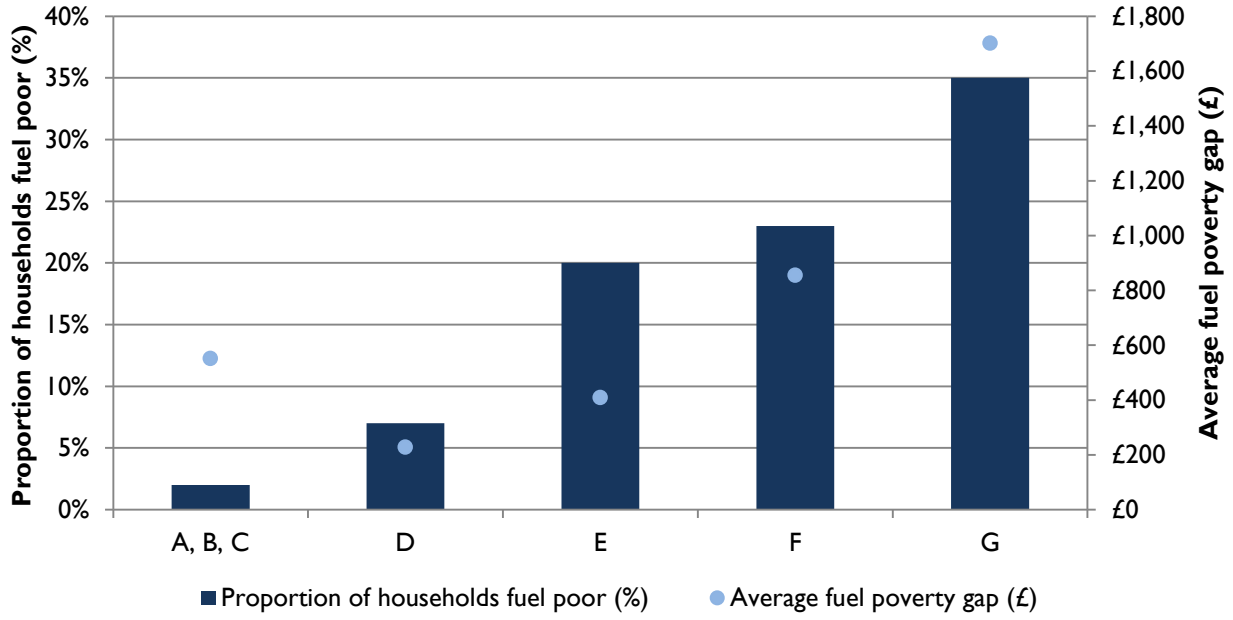
4.47. Vulnerable households (defined for this purpose as those containing children, elderly people or someone with long-term illness or disability) are more likely to be fuel poor and have higher fuel poverty gaps. Around 9% of non-vulnerable households were fuel poor in England in 2012, compared to 11% of vulnerable households. Vulnerable households accounted for 77% of all fuel poor households in England in 2012. Fuel poor vulnerable households had an average fuel poverty gap of £472 compared to £347 for non-vulnerable households.

4.48. Energy efficiency of housing is one of the factors affecting energy affordability with housing characteristics affecting the likelihood and depth of fuel poverty. Key indicators are SAP (Standard Assessment Procedure) rating bands for properties, age of dwelling, and dwelling type.

4.49. Figure 12 shows the proportion of households in fuel poverty and the average fuel poverty gap by the SAP rating bands. The figure shows that the lower the SAP rating is, the higher the chance of a household being in fuel poverty. Of households living in properties rated G, 35% are in fuel poverty, compared to 20% of households living in properties rated E, 7% of households living in properties rated D and 2% of households living in properties rated A, B or C. Also, with the exception of households living in properties rated A, B or C, a lower SAP rating is also associated with a higher average fuel poverty gap.[57] The average fuel poverty gap incurred by households living in properties rated G was around £1,700 in 2012, while the average fuel poverty gap incurred by households living in properties rated D was around £230 in 2012. Households living in properties rated E, F and G accounted for 60% of all fuel poor households in England in 2012.

[57] The number of fuel poor households living in properties rated C or above is relatively low. This means that a small number of outliers can bias the average fuel poverty gap and result in a potentially misleading value.

Figure 12: Fuel poverty and average fuel poverty gap by SAP rating bands, England, 2012, LIHC measure



Source: DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", Detailed Tables Low Income High Costs Measure, Table 22.

4.50. Other housing characteristics determining energy efficiency, and therefore related to fuel poverty, include:

- age of dwelling (households living in dwellings built before 1964 are more likely to be fuel poor than those in more modern dwellings);
- dwelling type (households living in purpose-built flats are much less likely to be fuel poor (only 3% are) than those in other types of dwelling, and have the smallest average fuel poverty gaps);
- wall type (solid) and boiler type.

4.51. Looking at fuel poverty by payment method, the data shows that *within all fuel poor* households, households paying by non-PPM methods[58] account for the majority of the fuel poor population.[59] According to LIHC fuel poverty measure for England, in 2012, direct debit customers accounted for approximately 50% of all fuel poor, standard credit customers accounted for 25% of all fuel poor and PPM customers account for 27% of all fuel poor for electricity. [60] For gas, the proportions were 40%, 20% and 22% respectively.[61]

4.52. However, when we look at the *incidence of fuel poverty within each payment method*, households paying by PPM are more likely to be in fuel poverty than households paying by other methods. PPM

[58] These include direct debit and standard credit payment methods.
[59] DECC (2014), "Annual Fuel Poverty Statistics Report, 2014", Detailed Tables Low Income High Costs Measure, Tables 15 and 16.
[60] The numbers do not add up to 100% due to rounding.
[61] The data does not add up to 100% due to presence of households with no gas.

customers are nearly three times more likely to be in fuel poverty than customers paying by direct debit. In 2012, 19% of customers paying for energy by PPM were fuel poor compared to 7% of direct debit customers who were fuel poor.

4.53. As the data above shows, the likelihood of fuel poverty differs depending on payment method consumers use to pay their gas and electricity bills. This can be due to the choice of payment method being related to households' socio-economic characteristics, such as income. In 2014 Citizens Advice conducted research into consumers' use of prepayment meters.[62] They found that PPM users are more likely to be on lower incomes than the average energy customer, which is likely to be a reason behind higher incidence of fuel poverty among these households.

4.54. However, *the severity of fuel poverty* as measured by the average fuel poverty gap is the least among PPM customers compared to customers paying by other payment methods. In 2012, PPM customers had the lowest average fuel poverty gap, while direct debit customers had the highest average fuel poverty gap for both gas and electricity. This is likely due to a high proportion of households paying by PPM living in comparatively small social housing, and therefore having lower fuel costs.

Fuel poverty in Scotland, Northern Ireland, and Wales

4.55. Fuel poverty statistics for Scotland are available in the Scottish House Condition Survey (SHCS). The latest available data for Scotland is for 2013. According to the SCHS data about 940,000 households were in fuel poverty (39%) in 2013 (Table 8). This represents an increase of about 100,000 households (4 percentage points) from 2012, when around 840,000 households (35%) were in fuel poverty. The analysis of the increase shows that it was driven by increasing fuel prices, and would have been higher if not for the mitigating effect of increasing household incomes and improving quality of the housing stock. [63]

Table 8: Number and proportion of fuel poor households in Scotland, 10% measure, 2010-2013

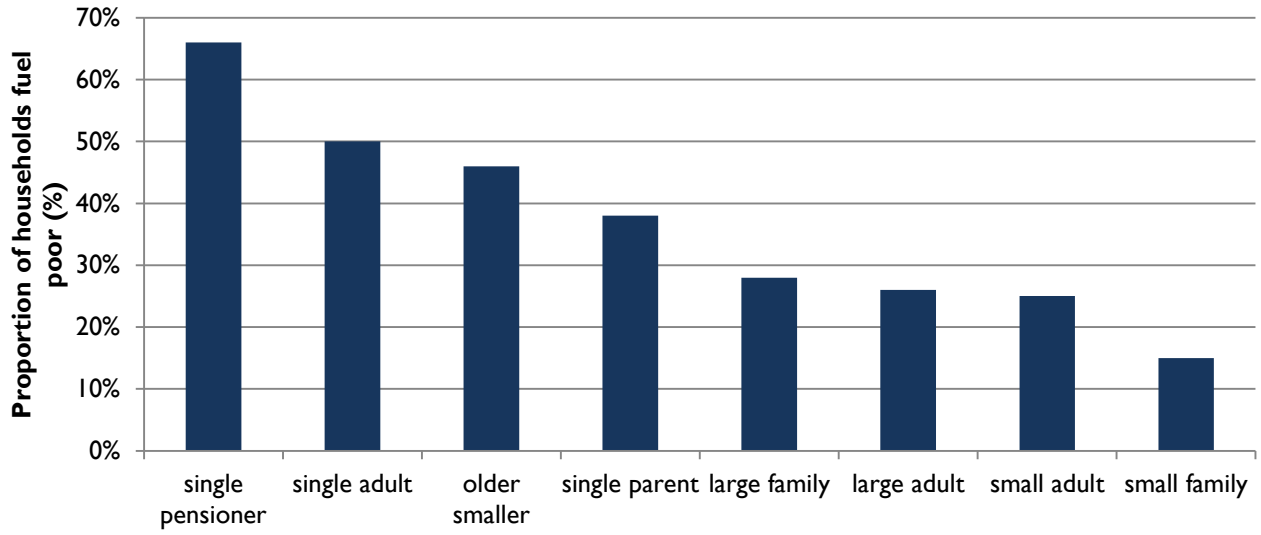
Year	Number of Fuel Poor Households	Proportion of Population Fuel Poor
2010	818,000	35%
2011	787,000	33%
Oct 2011	918,000	39%
2012	840,000	35%
2013	940,000	39%

[62] http://www.citizensadvice.org.uk/topping_up_or_dropping_out
[63] "Scottish House Conditions Survey 2013 – Key Findings", p. 57, http://www.scotland.gov.uk/Topics/Statistics/SHCS/Downloads

Source: "Scottish House Conditions Survey 2013 – Key Findings", p. 57, Table 31,
http://www.scotland.gov.uk/Topics/Statistics/SHCS/Downloads

4.56. The lowest rate of fuel poverty over the period 2010-13 was recorded for mid-2011 at 33%, representing around 787,000 households. Following a fuel price increase in autumn 2011, this rose to 39%. After a modest drop during 2012, fuel poverty levels returned in 2013 to the previous high level reaching 39%, equivalent to around 940,000 households.

Figure 13: Fuel poverty by household composition, Scotland, 10% measure, 2013



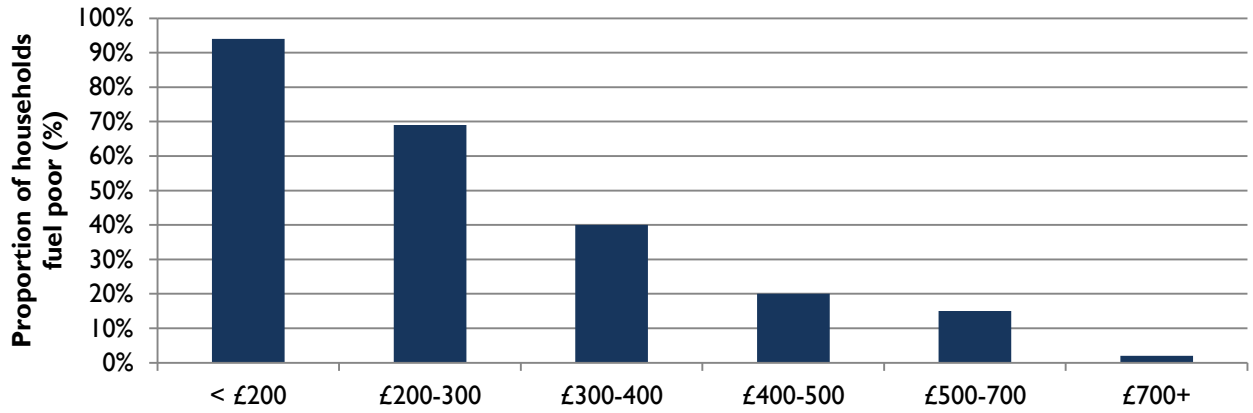
Source: "Scottish House Conditions Survey 2013 – Key Findings", p. 68, Table 37,
http://www.scotland.gov.uk/Topics/Statistics/SHCS/Downloads

4.57. When looking at *all fuel poor households*, single pensioners and single adults of non-pensionable age accounted for half of all fuel poor in Scotland in 2013.

4.58. Figure 14 below shows the incidence of fuel poverty in Scotland in 2013 by weekly household income. As expected, the incidence of fuel poverty is higher with lower income. Nearly 95% of households with income less than £200/week were in fuel poverty in 2013 and nearly 70% of households with incomes between £200/week and £300/week were in fuel poverty in that year.

4.59. When *all fuel poor households* are considered, households on lower incomes account for significant proportion of all fuel poor households. In 2013, households with incomes below £300/week accounted for 70% of all fuel poor households.

Figure 14: Fuel poverty by weekly household income, Scotland, 10% measure, 2013



Source: "Scottish House Conditions Survey 2013 – Key Findings", p. 68, Table 37, http://www.scotland.gov.uk/Topics/Statistics/SHCS/Downloads

4.60. Fuel poverty statistics for Northern Ireland are available from the Northern Ireland House Condition Survey. The latest available data for Northern Ireland is for 2011. According to the survey data, about 294,000 households (42%) were in fuel poverty in 2011 (Table 10).

4.61. The general trend since 2001 has been an increase in the proportion of households that are fuel poor (27% of households were fuel poor in 2001). Although the 2011 data has shown a recent flattening of this trend, with the proportion of households that were fuel poor in 2011 (42%) being slightly lower than in 2009 (44%).

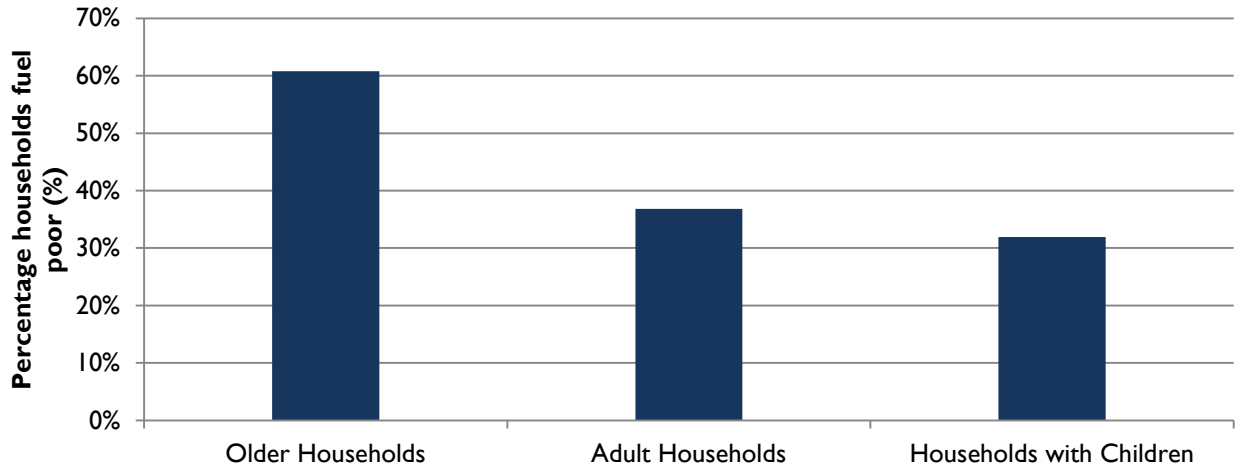
Table 9: Fuel Poverty Estimates, Northern Ireland, 2001-2011, 10% measure

Year	Number of Fuel Poor Households	Proportion of Population Fuel Poor
2001	167,000	27%
2004	146,000	23%
2006	226,000	34%
2009	302,000	44%
2011	294,000	42%

Source: Northern Ireland 2011 House Condition Survey, Table 6.5, p. 65, http://www.nihe.gov.uk/index/corporate/housing_research/house_condition_survey.htm

4.62. Figure 16 below shows the incidence of fuel poverty in Northern Ireland in 2011 by household types. It shows that more than 60% of older households in Northern Ireland in 2011 were fuel poor, and nearly half (47%) of all adult households were fuel poor. Households with children were less likely to be in fuel poverty (32%).

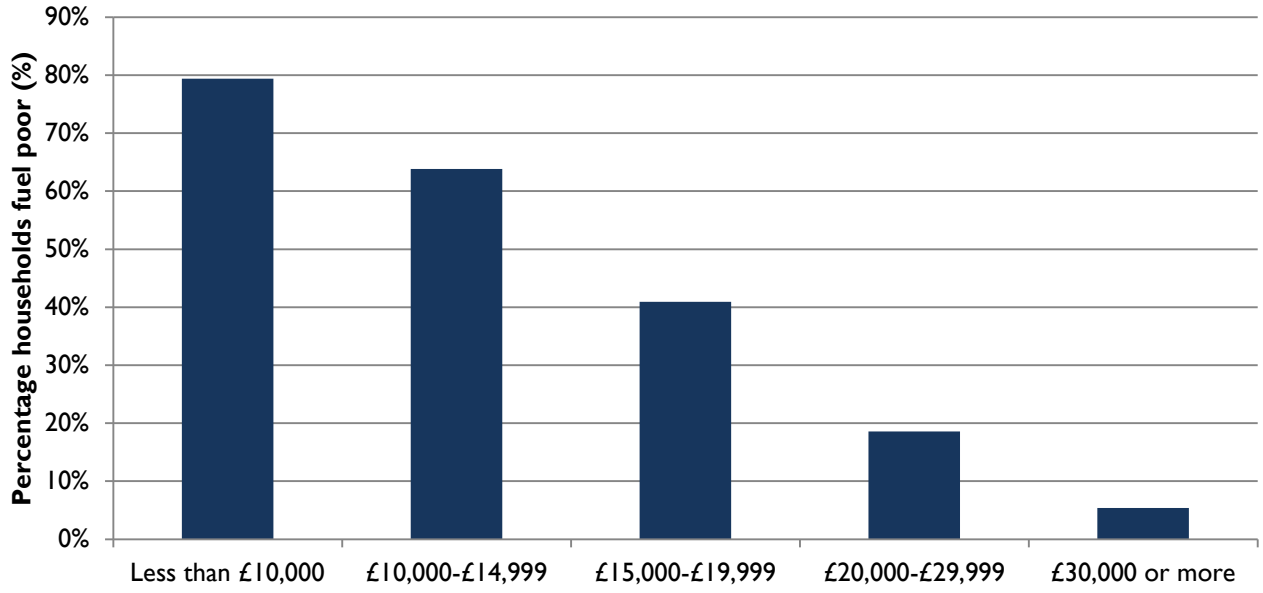
Figure 15: Fuel poverty by household composition, Northern Ireland, 10% measure, 2011



Source: Northern Ireland 2011 House Condition Survey Annex Tables, Table 6.10, http://www.nihe.gov.uk/index/corporate/housing_research/house_condition_survey.htm

4.63. In 2011, 79% of households with an annual income of less than £10,000 per annum were in fuel poverty (Figure 16). As income increased, the proportion of households in fuel poverty declined. The rate of fuel poverty for households with an annual income of between £15,000 and £19,999 was 41%, while only 5% of those with an annual income of £30,000 or more were in fuel poverty.

Figure 16: Fuel poverty by gross household income, Northern Ireland, 10% measure, 2011



Source: Northern Ireland 2011 House Condition Survey Annex Tables, Table 6.10, http://www.nihe.gov.uk/index/corporate/housing_research/house_condition_survey.htm

4.64. In 2013, the Welsh Government published Wales Fuel Poverty Projection Tool: 2011/2012 Report which provides the number of fuel poor households for 2008, and fuel poverty projections for 2011 and 2012, using 2008 as the base year.[64] The report provides the number of households in fuel poverty in Wales, the number of *vulnerable* fuel poor households, and *the number of fuel poor households living in social housing*. The report used the 10% measure of fuel poverty, as well estimated fuel poverty indicators for Wales using the new LIHC measure suggested from Professor Hills in his 2012 review.

4.65. Table 10 shows that in 2012, 386,000 households in Wales (30%) were in fuel poverty when estimated using the 10% measure. This is an increase of 54,000 households from 2008, when 332,000 households (26%) were in fuel poverty. Rising fuel prices had been counteracted by the increases in income and energy efficiency in the housing stock and this has led to the increase in the number of fuel poor households.

[64] http://wales.gov.uk/statistics-and-research/wales-fuel-poverty-projection-tool/?lang=en

Table 10: Projected number of households in fuel poverty following scenarios to 2011 and 2012 from a 2008 base, Wales, 10% measure

Year	Number of fuel poor households	% of total
2008	332,000	26%
2011	365,000	29%
2012	386,000	30%

Source: Wales Fuel Poverty Projection Tool: 2011/12 Report, http://wales.gov.uk/statistics-and-research/wales-fuel-poverty-projection-tool/?lang=en, p. 16, Table 8.

4.66. Table 10 shows the number of vulnerable households in fuel poverty in Wales in 2011 and 2012 categorised as those with children, the elderly, or someone who is disabled or had a long term illness. According to the Living in Wales, 2008 survey, 980,000 households (77% of total) were identified as being vulnerable. [65]

Table 11: Projected number of vulnerable households in fuel poverty following scenarios to 2011 and 2012 from a 2008 base, Wales, 10% measure, 2012

Year	Number of fuel poor households	% of total
2008	285,000	29%
2011	311,000	32%
2012	328,000	33%

Source: Wales Fuel Poverty Projection Tool: 2011/12 Report, http://wales.gov.uk/statistics-and-research/wales-fuel-poverty-projection-tool/?lang=en, p. 16, Table 9. Predicted using 2008 base.

4.67. In 2012, an estimated 328,000 (33%) of all vulnerable households in Wales were in fuel poverty. This is more than in 2008, when 285,000 households (29%) of vulnerable households were in fuel poverty. In all years, a larger proportion of vulnerable households were in fuel poverty compared to all households, but a similar percentage rise in the level of fuel poverty was observed.

[65] Wales Fuel Poverty Projection Tool: 2011/12 Report, http://wales.gov.uk/statistics-and-research/wales-fuel-poverty-projection-tool/?lang=en, p. 17.

Table 12: Projected number of fuel poor households in social housing following scenarios to 2011 and 2012 from a 2008 base, Wales, 10% measure, 2012

Year	Number of fuel poor households	% of total
2008	59,000	26%
2011	66,000	30%
2012	70,000	31%

Source: Wales Fuel Poverty Projection Tool: 2011/12 Report, http://wales.gov.uk/statistics-and-research/wales-fuel-poverty-projection-tool/?lang=en, p. 16, Table 10.

4.68. The "Wales Fuel Poverty Projection Tool" also provided estimates of the fuel poverty measure for Wales using the LIHC measure of fuel poverty proposed by Professor Hills in his review. Under the Hills measure of fuel poverty, the number of fuel poor households in Wales was estimated to be much lower than under the 10% measure: 144,000 households (13%) using the LIHC measure compared to 386,000 (30%) using the 10% measure. Under LIHC measure of fuel poverty, fuel poverty rate in Wales in 2012 would be similar to the fuel poverty rate in England in that year (10%).

Communications

4.69. Competition in the provision of communications services has underpinned declines in real prices over the last decade. Meanwhile, investment and innovation have delivered new networks and services and increased quality and choice. Ofcom research published in July 2014 reflected these developments, finding that a large majority of consumers do not report having ever had difficulties paying for communications services. However, the research also found that a small minority of consumers face affordability issues, and report that cost is a barrier to accessing some essential communication services.

4.70. Ofcom asked consumers whether they have ever experienced difficulty paying for communication services and, out of those who did, whether they faced specific affordability issues. Affordability issues included falling behind with payments and incurring debt in relation to communications services or other services, selling items (e.g. through a pawn shop or eBay), taking out a bank loan, or taking out a loan with another company (e.g. payday loan company). About 4% of UK consumers reported issues affording communications services.[66]

4.71. Out of the wider group who have ever experienced difficulties paying for communications services, the research shows that those in the DE socio-economic groups (SEG) and those with low income (using the OECD definition of low income[67]) are more likely to experience difficulties paying. However,

[66] This is based on those consumers who, out of those consumers who said that they have ever experienced difficulties paying for those communications services, reported affordability issues when managing their finances.
[67] OECD low income was defined as those with 70% of the median household income before housing costs, adjusted for the size of household using the OECD equivalence scales, and coding people who can't afford to do at least one

those over 75 are less likely to have experienced any difficulties paying for any services or devices, largely as over 75s tend to have fewer communication needs (typically fixed line).

4.72. However, those over 75 are *less* likely to have experienced any difficulties paying for any services or devices (3% vs 14%) largely as over 75s tend to have limited communication needs (typically fixed line).

4.73. It is worth noting that socio-economic group and income are associated in so far as those in the DE SEG are more likely to be on low income. Similarly, age and presence of children are also associated with being more likely to have affordability problems, as those in the 25-54 age groups are most likely to have children in the household.

4.74. In post, the evidence Ofcom collected in its 2013 report indicated that universal postal services are affordable for residential consumers (including low income and other vulnerable consumers). [68]

4.75. Ofcom research findings indicated that there are some very limited circumstances in which a residential consumer could be at risk from not being able to afford universal postal services. These include a consumer being in significant financial difficulty or having a very low income, and a frequent need to send post items they consider to be essential. This reflects very particular circumstances and severe financial hardship. It is likely that residential consumers in such circumstances would have concerns about the prices of universal postal services even if they were much lower.

Summary across sectors

4.76. In the water sector in England and Wales, and in the energy sector in England, households on low incomes represent a significant proportion of those experiencing affordability problems. Households on low incomes account for 74% of households with affordability problems in water (using the 5% measure which Ofwat used). In the energy sector, 74% of the fuel poor (using the LIHC measure) are in the lowest two income deciles. Similarly, in the communications sector, those on low incomes are more likely to say they have ever experienced some difficulties paying for services than those who are not.

4.77. A number of groups are shown to face greater affordability issues, depending on the sector, such as lone parents, working-age adults living alone, and single pensioners (in the water sector); couples with dependent children, single persons under 60, and lone parents with dependent children (in energy); persons belonging to DE socio-economic groups (in communications).

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activity on a list of typical activities (Ofcom (2014), "Affordability of Communications Services Essential for Participation: Quantitative Research", p. 6, http://stakeholders.ofcom.org.uk/binaries/research/affordability/Essential_Comms_Services.pdf).

[68] Ofcom report on the Affordability of universal postal services, 19 March 2013 http://stakeholders.ofcom.org.uk/binaries/post/affordability.pdf.

Table 13: Characteristics of households with affordability problems identified using available affordability measures across sectors

Sector	Country	Affordability measure	Characteristics of households facing affordability pressures
Water	England and Wales*	3% measure (used in Ofwat research) 5% measure (used in Ofwat research) Self-reported affordability	• Low income; • Lone parents; • Working-age adults living alone; • Pensioners.
Energy	England**	LIHC fuel poverty measure	• Low income; • Couples with dependent children; • Single persons under 60; • Lone parents with dependent children.
Communications	UK***	A range of measures are used. Survey results on % of consumers with affordability issues.	• Low-income groups. • DE socio-economic groups.

*Notes. * - data for 2008-09. ** - data for 2012. *** - data for 2014.*

4.78. While there is some overlap in characteristics across sectors, there are also differences which should be considered in terms of the policies for how customers in particular circumstances can be helped in each sector. In the water sector, small households can often reduce their water bills by getting a meter fitted. For large households, this can increase bills - a package of social tariffs and water efficiency can be offered by companies to help address this. Larger households with many occupants (especially children) and unmetered households with a single occupant are more likely to have affordability problems. In energy, helping low-income households improve energy efficiency of their housing can alleviate affordability problems and schemes have been specifically targeted on this basis.

4.79. In the communications sector, usage is an important factor to take into account. Consumers have a range of ways in which to fulfil essential communication functions, e.g. they can choose text, internet, voice and post in order to communicate with friends and family. In addition, they can choose to use services which are seen as more or less essential. Bundling of services also influences the prices of services, with bundles often cheaper than standalone services, typically fixed line voice and broadband.

Payment methods and affordability

4.80. The ability to access or use certain financial services may result in a customer choosing a more expensive payment method and this may in turn have negative effect on affordability. Not having a bank account at all, access to basic banking service only (eg without a direct debit facility) or a lack of trust in or feeling of control over certain services such as direct debit so it is not used, can all lead to a customer using a more expensive method of payment. In 2010-11, approximately 770,000 adults in

Britain did not have access to any bank account, including through other members of their households. Nearly 2 million adults did not have a bank account themselves. Although they may have had access to a bank account through other members of the household, their own banking facilities were limited.[69] Lack of access to affordable consumer credit may also exacerbate financial pressures arising from covering costs of essential services. Research by the Joseph Rowntree Foundation on debt and credit among low-income households suggests that arrears on bills are the most frequent reason for getting into debt.

Water – England and Wales

4.81. While in energy, customers who pay their bills using different payment methods (such as direct debit, standard credit or prepayment) often face significant differences to their bills, the problem does not really exist in the case of water. Some water companies offer direct debit discounts, but these are usually very small – less than £10 a year.

4.82. However, there are differences in the way customers are charged for water services. There are three ways in which customers can be billed for their water and sewerage services: i) unmetered charges; ii) metered charges; iii) assessed charges when fitting a meter is not possible. Across England and Wales, just over half of household customers (around 52%) pay for their water and sewerage services based on the rateable value of their property. The rateable value system means that households pay a fixed amount for their water, regardless of how much they use. It means that household customers living in higher rateable value properties face higher water and sewerage bills.

4.83. The Walker Review found that there is a limited relationship between the rateable value of a property and household income. Almost 40% of low-income households have a rateable value above £200, and are unlikely to benefit from cross-subsidies within the charging system. Using the Family Resources Survey data, Ofwat estimates that the rateable value system currently means a cross-subsidy of about £560 million per year from small households living in properties with high rateable values to large households living in properties with low rateable values. This does not target low-income households efficiently, and many household customers on high incomes benefit.

4.84. Ofwat research shows that some types of households with a low number of occupants can benefit from installing a meter. A pilot study by South West Water on water affordability found that about 60% of vulnerable households could save money if they had a water meter.[70]

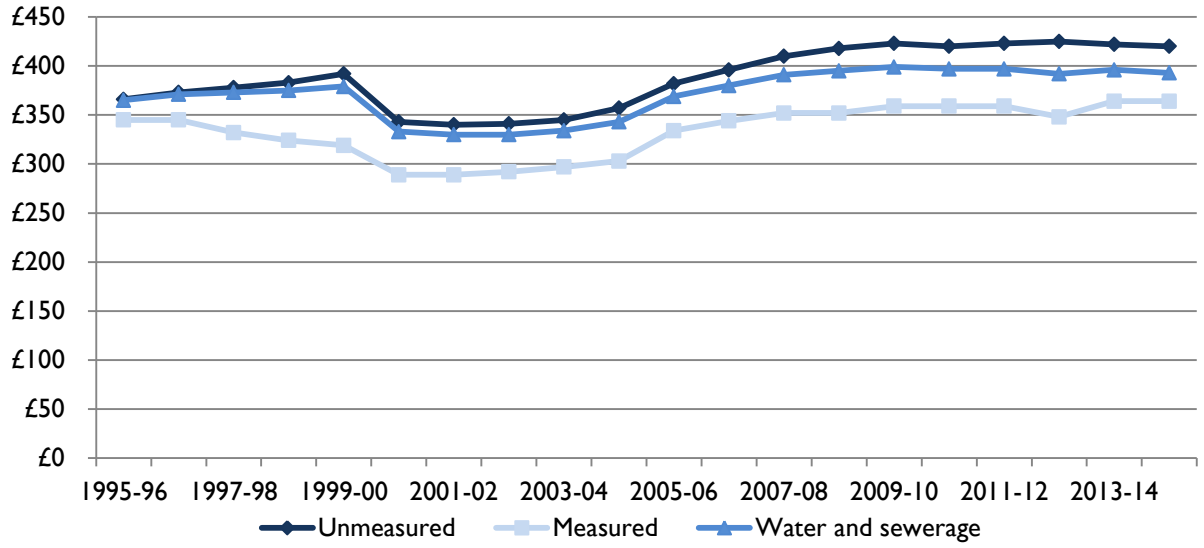
4.85. In the 2014 price review, Ofwat challenged companies to listen to their customers and respond to their needs. Companies came up with a variety of new measures – from trust funds to assistance schemes – to help customers struggling to pay their bills. Currently around 760,000 people benefit from some form of support from their water company. Over the next five years, companies are putting in place measures, such as social tariffs, which are forecast to help an additional one million

[69] Rowlingson, K. and S. MacKay (2013), "Financial Inclusion. Annual Monitoring Report 2013", pp. 18-19, http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/2013/Financial-inclusion-report-2013-final.pdf

[70] Ofwat (2011), "Affordability and debt 2009-10 – current evidence", p. 19, http://www.ofwat.gov.uk/future/customers/metering/affordability/pap_tec20110105affevid.pdf

people. This will more than double the number of people benefiting from financial support to around 1.8 million by 2020.

Figure 17: Average annual household water and sewerage bills in England and Wales, 2014-15 prices



Source: Ofwat. Data is provided for the financial year, April to March.

Energy

4.86. In response to concerns that differences in bills due to payment methods can harm consumers who do not have a choice about payment method, Ofgem introduced a licence condition in 2009. Under this licence condition, gas and electricity suppliers cannot charge more for one payment method compared with another, unless this can be justified by cost.

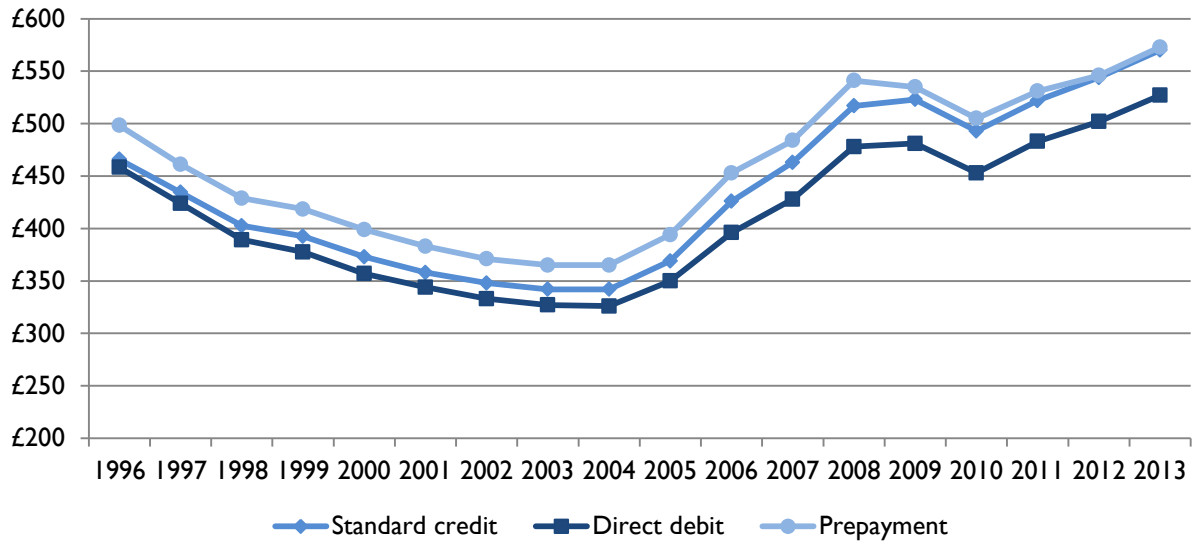
4.87. Historically, there were differences in bills levels between standard credit and pre-payment. As a result of the intervention by Ofgem this gap has been closed, but with differences remaining between pre-payment and direct debit. Ofgem published an update on payment differences in May 2014[71] showing that, since May 2010, the difference in bills for the average dual fuel customer between standard credit and prepayment customers compared to those paying by direct debit have broadly remained the same at around £80 per year.

4.88. Data published by DECC shows that in 2013, the differential for a prepayment electricity bill over a direct debit electricity bill was £48 per annum (in 2013 prices) or 8%. The differential for a prepayment gas bill over a direct debit gas bill was £57 per annum (in 2013 prices) or 8%.

[71] https://www.ofgem.gov.uk/publications-and-updates/price-differences-between-payment-methods-%E2%80%93-open-letter

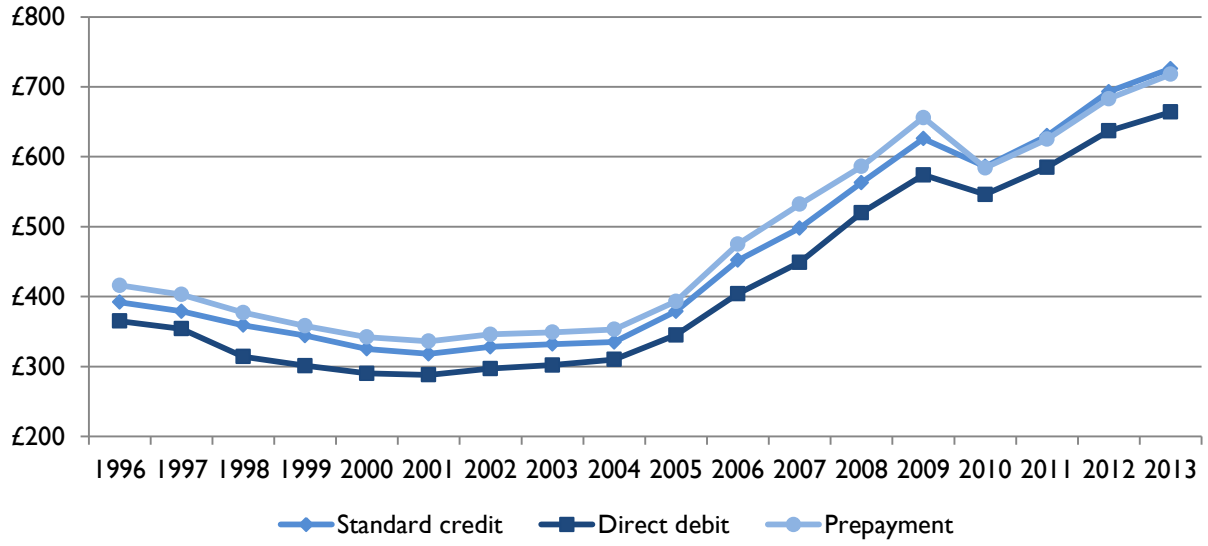
4.89. Figure 18 and Figure 19 show average annual electricity and gas bills in real terms between 1996 and 2013. Since 2011, prepayment bill values have been converging to standard credit bill values for both gas and electricity. As previously noted around 50% of fuel poor electricity customers and around 40% of fuel poor gas customers paid by direct debit in 2012. The proportions of fuel poor prepayment customers for electricity and gas were 30% and 20% respectively.

Figure 18: Average annual domestic standard electricity bills by payment method (2010 prices)



Source: DECC (2014), "Annual Domestic Energy Bills", October 2014 Update, Table 2.2.1, https://www.gov.uk/government/statistical-data-sets/annual-domestic-energy-price-statistics. Electricity bills are for the UK. Bills deflated to 2010 terms using the GDP (market prices) deflator.

Figure 19: Average annual domestic gas bills by payment method (2010 prices)



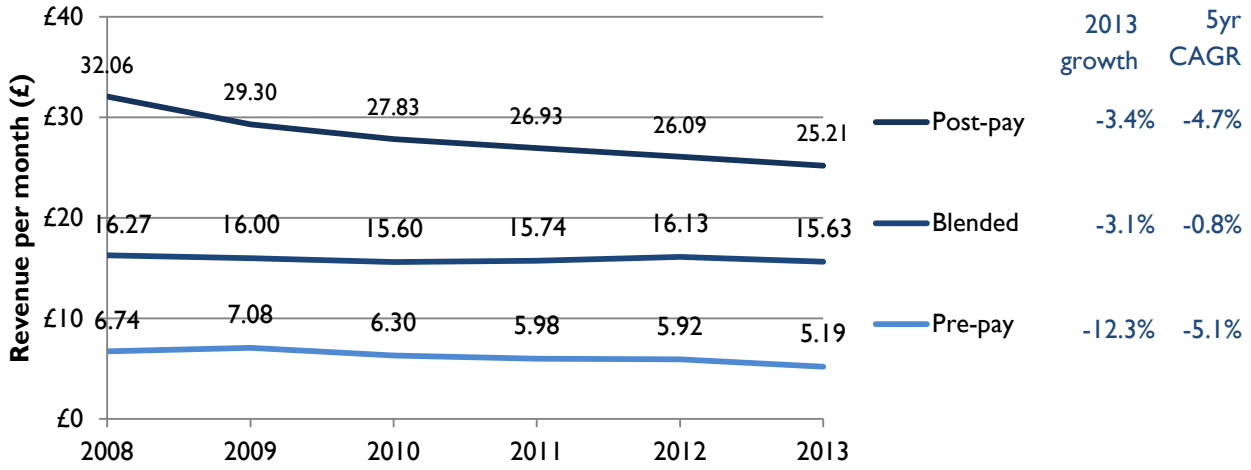
Source: DECC (2014), "Annual Domestic Energy Bills", October 2014 Update, Table 2.3.1, https://www.gov.uk/government/statistical-data-sets/annual-domestic-energy-price-statistics. Gas bills are for Great Britain. Bills deflated to 2010 terms using the GDP (market prices) deflator.

Communications

4.90. Ofcom collects data on differences in bill values between pre- and post-pay for the mobile services. Data is not collected for fixed line and broadband sectors where pay-as-you -go services are generally not available.

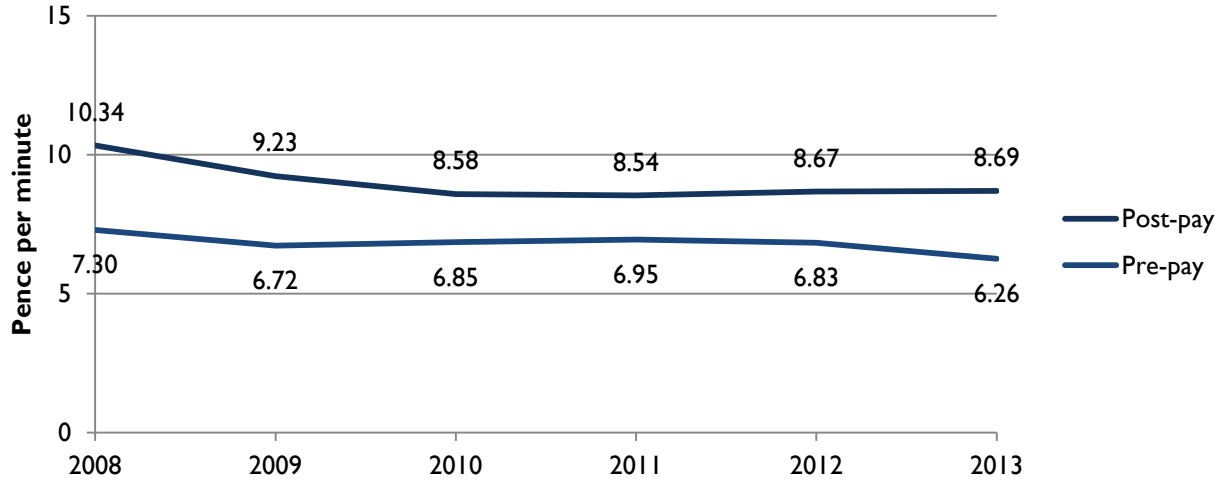
4.91. For mobile services, industry revenue is lower in pre-pay, suggesting that consumers on pre-pay (pay as you go) spend less on average than consumers on post-pay (contract). The difference between pre-pay and post-pay mobile voice call charges increased in 2013. The average charge of a post-pay call minute was unchanged at 8.7 pence per minute and continued to be higher than the average charge of a pre-pay call minute which dropped to 6.3 pence per minute. It should be noted that these average call charges, and particularly those for post-pay services, will be overstated as the revenues used in the calculation include those related to handsets (where this is recovered as part of the service charge) and bundled messaging and data services.

Figure 20: Average monthly retail revenue per mobile subscription



Source: figure 5.41, CMR 2014. 'Blended' refers to the average across all subscriptions.

Figure 21: Average per-minute mobile call charges, by customer type



Source: figure 5.73, CMR 2014

5. Effects of affordability on consumers and available help

5.1. Not being able to afford essential services can have a number of negative consequences for consumers. These can include severe health consequences if they can't keep warm. Wider consequences include not being able to access and participate in economic and social life, where there is lack of access to communications services.

5.2. One of the most direct consequences of affordability problems is when a consumer incurs debt due to unpaid bills and may experience an interruption (through disconnection) or a change to provision of the service. In this section we review the problem of consumer debt and help available to consumers with affordability problems in these sectors.

Water – England and Wales

5.3. There are two key features of the statutory framework in the water sector that affect affordability. The Water Industry Act 1991 provides a statutory duty for regulated companies to supply water and prohibits them from disconnecting household customers for non-payment. This reflects the view of successive governments that people should not be denied access to water because they are unable to pay for it. As the Walker Review reported, *"Ready availability of water for essential use provides health and hygiene benefits to the individual as well as wider social and financial benefits to society through improved public health and a reduction in communicable disease."* [72]

5.4. Nevertheless, water companies are legally entitled to find other ways to recover money owed to them, including court actions, and it is in the interest of customers in general that they should do so. Ofwat currently estimates that 'bad debt' - unpaid bills - adds around £16 to average annual bills. Ofwat expects water companies to handle non-payment sensitively, distinguishing as far as possible between customers who are genuinely struggling to pay and customers who simply choose not to pay. Companies assist customers struggling to pay by offering advice and support, including a range of payment options. If companies choose to pursue court action, customers will not only incur major legal costs if there is a judgement against them, it will also damage their credit rating.

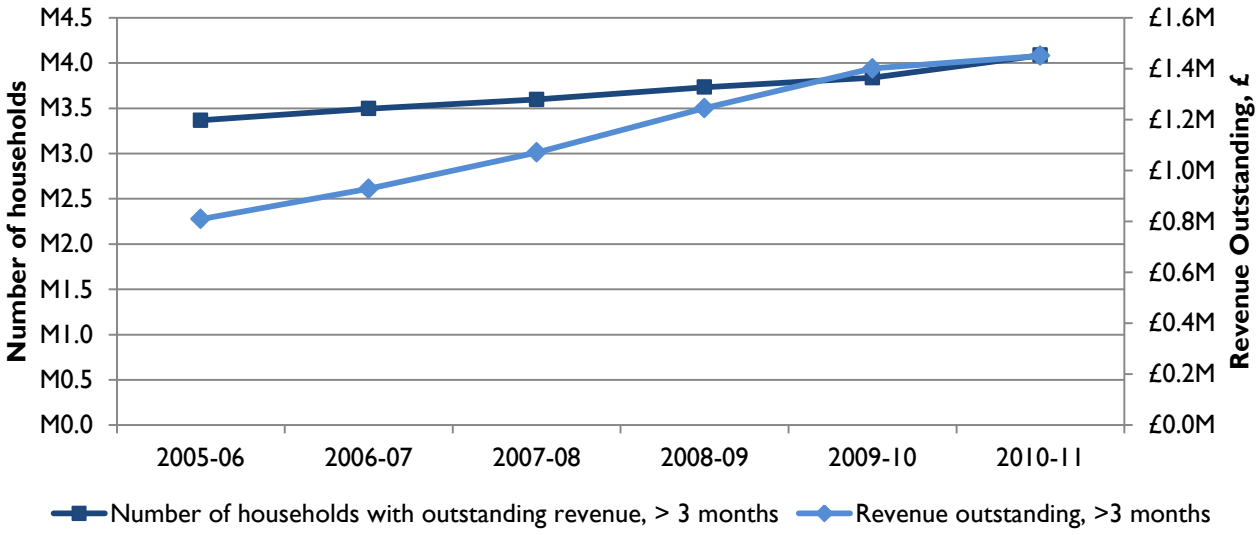
5.5. Affordability problems should have no impact on water consumption for unmetered customers. For these customers, there is no financial incentive to limit their water use. It could have an impact on water use by metered customers, although there is no evidence that this has encouraged customers to cut back on water for essential purposes. For both metered and unmetered customers, it is also possible that affordability problems will cause them to cut back on their consumption of other essential services, although again there is no evidence on the extent of this.

5.6. Since the late 1990s, the amount of money that household customers owe the water companies has continued to increase. Some households struggling to afford their bills are aware of the ban on disconnections (and actively advised of it by advice providers such as Citizens' Advice Bureau) and so treat water bills as a low priority. In 2010-11, £1.5 billion of water bills older than three months

[72] Defra (2009), "The Independent Review of Charging for Household Water and Sewerage Services (Walker Review)", https://www.gov.uk/government/publications/the-independent-review-of-charging-for-household-water-and-sewerage-services-walker-review.

remained unpaid in England and Wales. This is a 4% increase on the previous year. Approximately 4 million households in England and Wales were in debt for their water and sewerage bills. Some of the recent increases in debt are likely to be because of the recent recession. Defra introduced guidance on social tariffs in 2012, giving water companies more flexibility to reduce bills to avoid debt. By the end of 2020, at least 15 of the 18 water companies will have social tariffs in place (nine have them in place already), to help customers struggling to pay their bills - doubling the number currently receiving assistance.

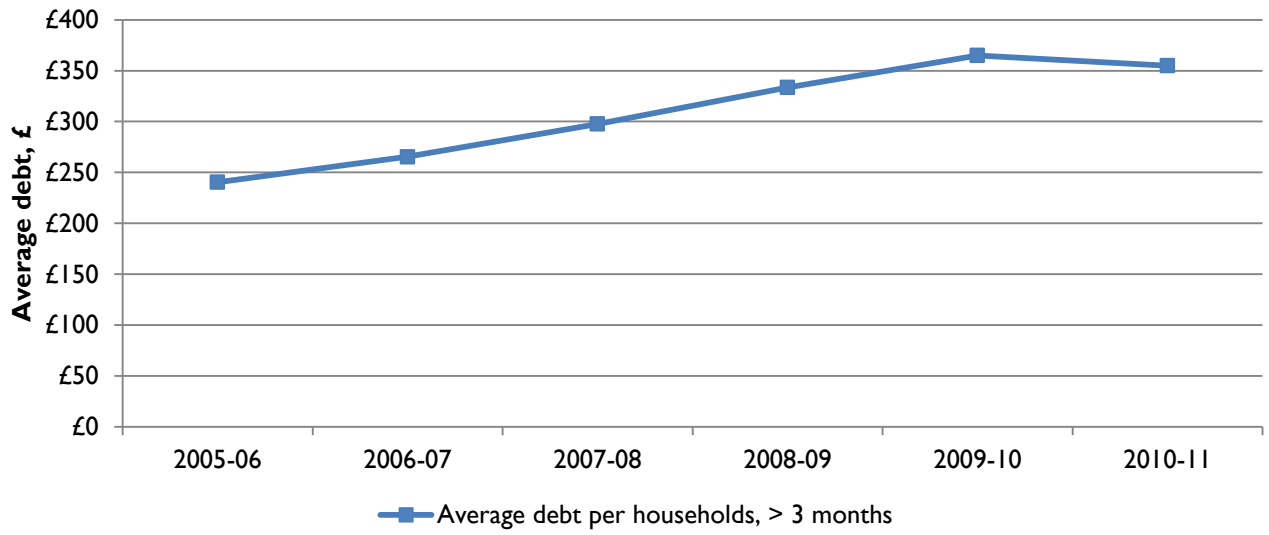
Table 14: Water and sewerage revenue outstanding and number of households with revenue outstanding, England and Wales



Source: Ofwat.

5.7. At the end of 2010-11, average debt per households (excluding debt less than three months old), was £354. The debt in 2010-11 declined by 3% compared to the previous year; this was the first time when the debt declined since 2005-06.

Figure 22: Average debt per households, >3 months



Source: Ofwat.

5.8. Research consistently finds that water debt is more likely to be incurred by low-income single adults, and lone parents and families.[73] This reflects the profile of those with affordability risks. Ofwat's analysis of the Family Resources Survey found that households reporting themselves as being in water debt were more likely to be:

- on lower incomes (58% of those in water debt are in the bottom 30% income group);
- on benefits (62% of those in debt);
- living in rented properties (80% of those in debt);
- lone parents (28% of those in debt);
- a single working-age adult living alone (30% of those in debt); or
- a couple with children (21% of those in debt).

5.9. There is a range of assistance provided by water companies to help customers struggling to pay their water and sewerage bills. These are:

- help with paying, including optional metering, easy billing and payment options, and benefits entitlement checks;
- help with debt, which includes debt write-off and payment matching schemes, and advice from the companies;
- help with water efficiency, including free water-saving products, such as cistern devices; and

[73] Based on the research from Citizens Advice Trends, https://www.citizensadvice.org.uk.

- help through charges, such as the WaterSure scheme, special tariffs and company social tariffs.[74]

5.10. Ofwat has a duty to protect the interests of consumers, including particular groups of individuals who may be vulnerable to harm, and so takes account of the needs of vulnerable customers in the way that it regulates. For example, as part of the 2014 price review, its risk-based assessment of water companies' business plans considered the steps that companies had taken to make sure that their proposals were affordable for customers.

5.11. The Vulnerable Groups Regulations (1999) require companies in England to offer a WaterSure tariff. This means that metered households receiving certain benefits or tax credits, and with either a specific medical condition or three or more children, can have their bill capped at the average for their water company. WaterSure is intended to avoid customers restricting their water use in order to save money. Companies in Wales do not have to offer a WaterSure tariff, but both Dŵr Cymru and Dee Valley Water offer schemes of their own.

5.12. Ofwat's 2014 price review challenge has seen £3 billion of savings for customers, and reduced bills further, so that the average bill will decrease by 5% by 2020. But tackling affordability is not just about keeping bills down. Ofwat's challenge for companies to listen to their customers will see the number of people benefiting from financial support double to around 1.8 million by 2020. Currently around 760,000 people benefit from some form of financial support from the water company. Over the next five years, companies are putting in place measures, such as social tariffs, which are forecast to help an additional one million people.

5.13. The Flood and Water Management Act 2010 (section 44) enables water and sewerage companies in England and Wales to offer social tariffs, and allows them to finance such tariffs by introducing a cross-subsidy between customers. The UK and Welsh Governments have since published guidance, urging companies to introduce reduced tariffs for those customers who have difficulty paying their bills, subject to customer acceptability. Nine companies – Anglian Water, Affinity Water, Bristol Water, Southern Water, South West Water, Sutton and East Surrey Water, Thames Water, Welsh Water and Wessex Water – now have social tariffs in place. Six further companies will have them in place by 2020, and three remaining companies have yet to decide whether they will offer a social tariff (these three are small companies in terms of customer base). An additional one million people will benefit from measures companies are putting in place to help customers struggling with their bills – including social tariffs – over the next five years. This will more than double the number currently benefiting from financial support.

Energy

5.14. Difficulty affording fuel bills can have a number of effects on households, including living in a cold home to reduce energy costs and limiting spending on other essentials, such as food. Low temperatures at home can exacerbate existing health problems and create new ones, while worrying about how to

[74] Ofwat (2011), "Affordable for All. How can we help those who struggle to pay their water bills?", http://www.ofwat.gov.uk/future/customers/metering/affordability/prs_inf_afford.pdf.

meet fuel bills can also have psychological effects. These can make people feel anxious or depressed, and make them increasingly isolated.[75]

5.15. There are also more extreme consequences of not affording fuel bills. An estimated 18,200 excess winter deaths[76] occurred in England and Wales during winter 2013/14.[77] Excess winter deaths have a number of causes, including levels of influenza. Estimates vary as to how many of these are related to fuel poverty. The World Health Organisation estimated that around 40% of excess winter deaths relate to inadequate housing leading to cold homes.[78]

5.16. Protecting the interests of vulnerable consumers is an important area of Ofgem's work. In 2013, it published its Consumer Vulnerability Strategy, which defines what it sees as vulnerability. Ofgem undertakes a number of measures to protect interests of these groups of consumers.[79] Ofgem regularly publishes data on energy disconnections for debt and other issues related to supplier dealings with domestic customers.[80] Suppliers provide this data to Ofgem in fulfilment of their licence conditions.

5.17. Suppliers are required by their licences to avoid disconnecting consumers who are of pensionable age, disabled or chronically sick in the winter months (so-called 'Winter Moratorium' on disconnections).[81] The six largest suppliers have signed a voluntary code of practice known as the Energy UK Safety Net. Among other protections, this prevents vulnerable customers from getting disconnected at any time of year. If a customer is disconnected and later identified to be vulnerable, the Safety Net makes sure they will be reconnected as a priority and usually within 24 hours. Compliance with the Safety Net is independently audited. While they are not currently signatories to the Safety Net, some smaller suppliers have made similar commitments not to disconnect consumers they believe to be vulnerable.

5.18. When a customer is in debt, suppliers should only disconnect as a last resort. Since 2000, the number of electricity disconnections in Great Britain declined dramatically. During 2013, 556 electricity and 84 gas disconnections were carried out.

5.19. At the end of 2013, around 6% of GB domestic electricity accounts and around 6% of GB domestic gas accounts were in debt.[82] This corresponds to approximately 1.5 million electricity accounts and 1.4

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[75] Eaga Charitable Trust (2010), "You Just Have to Get By", http://www.cse.org.uk/pdf/you_just_have_to_get_by.pdf.
[76] The number of excess winter deaths are defined as the difference between the number of deaths which occurred in the winter months of December to March and the average number of deaths which occurred in the preceding August to November and the following April to July (ONS (2014), "Excess Winter Mortality in England and Wales, 2013/14 (Provisional) and 2012/13 (Final)", p. 2, http://ons.gov.uk/ons/dcp171778_387113.pdf).
[77] ONS (2014), "Excess Winter Mortality in England and Wales, 2013/14 (Provisional) and 2012/13 (Final)", http://ons.gov.uk/ons/dcp171778_387113.pdf.
[78] Ofgem (2012), "Energy Affordability: Helping Develop Ofgem's Vulnerable Consumers' Strategy, https://www.ofgem.gov.uk/publications-and-updates/energy-affordability-helping-develop-ofgem%E2%80%99s-vulnerable-consumers%E2%80%99-strategy.
[79] Ofgem (2013), "Consumer Vulnerability Strategy", https://www.ofgem.gov.uk/ofgem-publications/75550/consumer-vulnerability-strategy.pdf.
[80] Ofgem (2014), "Domestic Suppliers' Social Obligations: 2013 Annual Report". https://www.ofgem.gov.uk/publications-and-updates/domestic-suppliers-social-obligations-2013-annual-report
[81] Standard Licence Condition 27.10-27.11. Winter months are October – March.
[82] This includes customer accounts in arrears and customer accounts repaying debt.

million gas accounts. Average levels of electricity and gas debt outstanding at the end of the period were £306 and £323 respectively.

5.20. Suppliers are required to take account of the needs of customers who are experiencing difficulty paying their energy bills. Customers must be allowed to repay outstanding charges by instalment and suppliers must be proactive in establishing the customer's ability to pay and take this into account when setting instalment amounts and agreeing a payment method. Suppliers must also ensure that customers understand this, and to monitor the suitability of arrangements after they have been set up.[83]

5.21. Ofgem encourages suppliers to work with, and to signpost help provided by the free debt advice sector, those customers struggling to pay their bill. To ensure customers struggling to pay are aware of their rights, for example their right to a suitable payment option and repayment rates based on their ability to pay, Ofgem is currently reviewing suppliers' communications with indebted customers. It is also working with the advice sector on a consumer energy debt advice guide.

5.22. Through its retail market reforms, Ofgem recognised that significant barriers prevented consumers from engaging with the energy market – tariff options were complex, information provided to consumers was poor and consumers have low levels of trust in energy suppliers. This in turn reduced competitive pressure in the market. Ofgem has consulted extensively on how to improve consumer engagement in the market and its reforms will ensure that all consumers receive simpler and clearer information to indicate that alternative tariffs exist, help them to understand what their options are, and that they can expect fairer treatment from energy suppliers. Ofgem believes these reforms will benefit all consumers and will prompt consumers in vulnerable situations to engage and shop around for their energy. Ofgem is also considering what more it can do to help vulnerable and disengaged consumers get the best energy deal for them, for example by encouraging more independent face-to-face consumer advice and support.

5.23. Ofgem's 'Consumer Protection and Empowerment for Smarter Markets work programme[84] is looking at how consumers can benefit from the roll out of smart meters in Great Britain in terms of how they manage their energy use and expenditure, together with how potential risks can be mitigated. Smart prepayment is being considered in the early phase of the programme. While it may be an attractive proposition for consumers to help them manage their consumption and spend, there may also be risks with smart pre-payment such as remote disconnection or self-disconnection, particularly as a disproportionate number prepayment customers are on low incomes.

5.24. As part of its RIIO[85] price control framework, Ofgem also considers that gas and electricity distribution network companies should adopt a strategic approach to addressing consumer vulnerability, with emphasis on joint working with a range of stakeholders across industry, government and other agencies. For example, distribution network operators (DNOs) may have a role to play in identifying these customers and helping them access more affordable energy solutions that reduce

[83] Key principles for Ability to Pay are included in Ofgem (2010), "Review of suppliers' approaches to debt management and prevention ", https://www.ofgem.gov.uk/ofgem-publications/57397/debt-review-report.pdf.
[84] https://www.ofgem.gov.uk/ofgem-publications/90348/consumerempowermentandprotectionupdatedworkprogramme.finalpdf.pdf
[85] RIIO model of network regulation: Revenue = Incentives+Innovation+Outputs

their financial burden. All networks are incentivised to engage with broad and inclusive range of stakeholders as part of our Stakeholder Engagement Incentive. For the next electricity price control we have increased the size of the Stakeholder Incentive reward specifically to reward social outputs.

5.25. The gas distribution network (GDN) price control settlement provides funding for network operators to extend the gas network to fuel poor communities. A higher proportion of off-gas grid customers are in fuel poverty. GDNs are also incentivised through the RIIO-GD1 price control arrangements to adopt a strategic approach to identify the most cost-effective solutions for these consumers. In the current electricity distribution price control review we have also prompted consideration of innovative ways to support consumers who are off the gas network.

5.26. Additionally, government has introduced a number of programmes to help consumers afford energy bills.

- **The Warm Home Discount** scheme provides eligible low-income consumers with a discount on their electricity bill. For winter 2013-14 the value of the discount was £135. For winter 2014-15, the value of the discount is £140.[86]
- **Winter Fuel Payments** are annual payments of between £100 and £300 to help people over the age of 62 with the costs of keeping warm in the winter.
- **Cold Weather Payments** are are made to eligible low-income customers when local temperatures are either recorded as, or forecast to be, an average of zero degrees Celsius or below over seven consecutive days.
- **Energy Company Obligation (ECO),** is a compulsory supplier-funded scheme to deliver savings to low income domestic customers by improving the energy efficiency of their homes.

5.27. **Fuel Direct** (also known as Third Party Deductions) is a scheme administered by Department of Work and Pension, which helps consumers with energy debt repay their debt through direct deduction from certain benefits. This implies an upper limit for the amount that can be taken for debt repayment. Fuel Direct currently works as a last resort for customers who have payment difficulty and no other suitable method of repaying debts associated with their gas and/or electricity accounts. For those already in debt it provides automatic access to a low repayment level. It also offers an alternative method of repayment where other approaches have not been successful and a prepayment meter is not suitable for the customer, avoiding the need for disconnection.

5.28. In the 2013 Autumn Statement, government indicated that a £12 annual "Government Energy Discount" (now called the **Government Electricity Rebate**) would be paid to domestic electricity customers for each of the next two years. The payments will reduce the cost of social and environmental programmes on customer energy bills. Suppliers will credit each of their customer accounts and then be reimbursed by government for those rebates.

5.29. In Northern Ireland, the Utility Regulator works alongside Government on a range of interventions and measures aimed at tackling fuel poverty in the region. These include Affordable Warmth schemes,

[86] https://www.gov.uk/the-warm-home-discount-scheme/overview

and also energy efficiency measures targeted at the fuel poor through the NI Sustainable Energy Programme.

Communications

Background

5.30. Ofcom has specific duties under the Communications Act to take account of particular groups of citizens and consumers who may be vulnerable to harm.[87] These include the requirement for Ofcom to have regard to the needs and interests of those who are disabled, elderly, on low incomes. Examples of where Ofcom has intervened to promote participation and address consumer vulnerability of such consumers include:

- ensuring that communication providers offer services for disabled consumers such as text relay for deaf people, free directory enquiries for blind people and priority fault repair for people who depend on the phone because of their disability;[88]
- requiring (under the Universal Service Obligation) consumers to be given connection to landline telephone services on reasonable request at uniform prices, irrespective of geographical location;[89] and
- requiring social tariffs to be available for people on low incomes.

5.31. There is more information about Ofcom approach to vulnerability on the Consumer Vulnerability section of its website.[90]

Research

5.32. Ofcom's recent research on affordability aimed to assess the consequences on consumers of either buying or not buying a service because of cost. While most consumers are unlikely to face affordability problems, Ofcom also found that, in a minority of cases, some consumers faced affordability issues when buying services, or did not use the service because of cost.

5.33. Ofcom's research suggests that affordability of communications services is linked to consumers' financial circumstances and to their ease or difficulty of paying for their wider 'basket of monthly goods'. Those with financial responsibility for communications services who were on low incomes were more likely to have had difficulties paying for their outgoings. Low income consumers employed a variety of coping mechanisms in order to afford essential services:

- controlling their expenditure with the use of pre-payment cards, PAYG and/or paying with cash only, or staying with a known provider. This, however, meant that they may be excluded from deals that suited them better. For instance, they may pay higher prices depending on their usage, as post-pay can be more attractive. They may also pay surcharges for non-direct debit payment methods (which they accepted as a means of retaining control); and

[87] http://www.legislation.gov.uk/ukpga/2003/21/section/3
[88] http://consumers.ofcom.org.uk/disability/disabled-people-and-communications-services/.
[89] http://www.ofcom.org.uk/static/archive/oftel/publications/eu_directives/2003/uso0703.pdf.
[90] http://consumers.ofcom.org.uk/disability/consumer-vulnerability/.

- trading off some commodities against each other, for instance reducing consumption (e.g. making fewer calls) and buying commodities of a lower quality.

5.34. There was also sometimes low awareness of cheaper deals, and only 26% of consumers on income support were aware of the social tariffs (offered by BT and, in Hull, Kingston Communications (KCOM)) available to help consumers on qualifying benefits to access a landline.

5.35. Some consumers said cost was a barrier in obtaining services they would like to have and were generally seen as essential. This applied particularly to broadband, where 7% of respondents in total would have liked broadband but did not have it and quoted cost as an issue. In addition, 6% of respondents in total would have liked a landline but did not have it and quoted cost as an issue. Only 1% in total found cost a barrier to using a mobile.

5.36. Ofcom quantitative research found 2% of respondents said they had had some difficulties paying for telecommunications and have ever gone into telecommunications debt or behind on payments when making sure they could afford their telecommunications.

5.37. This level of reported debt is consistent with previous findings and other sectors: in Ofcom's 2013 debt research, 3% of those responsible for paying telecommunications bills claimed to have or had any telecommunications debt in the previous year.

5.38. Instances of debt were slightly higher in relation to mobile services than other paid-for communications services. In Ofcom's 2013 debt research, 3% of respondents mentioned debt in relation to mobile, compared with 2% in relation to landline and 2% in relation to broadband.[91] More generally, Ofcom's affordability research shows that, out of all those experiencing difficulties paying, 75% said they had difficulties paying for their mobile phone. This could reflect the fact that mobile take-up is the highest of all telecommunications services (free-to-view television excluded), standing at 95% overall. It could also reflect the fact that low-income consumers are more likely to be mobile-only households, as 26% of household in the DE socio-economic groups were mobile-only in Q1 2013, compared with 15% of all homes being mobile-only.

5.39. In addition, information on debt levels requested from mobile operators shows that the percentage of mobile customers in debt as a percentage of the customer base (calculated as an industry average) has fallen by 0.44 percentage points since 2010.[92] The average debt per indebted mobile customer has also fallen over the last four years. Average mobile debt per indebted customer (calculated as an industry average) has dropped by approximately £5.90 since 2010, to just under £55.[93]

Help available for consumers

5.40. In the communications sector specifically, help available to consumers who are already in debt or are on low income can take several forms.

[91] Telecoms debt omnibus, August 2013, http://stakeholders.ofcom.org.uk/binaries/research/telecoms-research/Telecoms-debt-omnibus-data/Telecom_debts_omnibus_summa1.pdf.
[92] Ofcom information request to mobile providers with spectrum (Vodafone, Three, O2, Orange, T-Mobile, EE), 2014.
[93] Data from four mobile providers with spectrum in 2010-2013. Although providers calculate debt in different ways, each provider's method of calculation is consistent across the four years.

5.41. BT and, in Hull only, Kingston Communications (KCOM), as the universal service providers, are required by Ofcom to offer one or more low-cost tariffs to assist consumers who have difficulty affording telephone services. BT's social tariff service is BT Basic, offering low monthly line rental (but with a low call allowance) to people receiving certain state benefits, and the equivalent in Hull is KCOM's social access package. BT Basic line rental is £5.10 a month (£15.30 a quarter including a £4.50 call allowance) and KCOM's social access package is £5.62 a month for line rental with 20 local calls included.[94]

5.42. Ofcom also requires providers of fixed voice services to act proportionately and not in an unduly discriminatory way when taking action for non-payment. They must give due warning and only disconnect unpaid services where feasible in the case of disconnection,[95] and publish information for subscribers about steps for non-payment. For mobile services, customers whose service has been disconnected can use pay-as-you-go (pre-pay) services, which can provide a good alternative to consumers depending on their communications needs.

5.43. There are several ways communications providers can help customers in difficulty, including:

- proactively contacting customers who have paid their bills late to discuss ways of optimising their account, e.g. by changing the payment date or switching to direct debit;
- allowing customers to pay the debt over time;
- allowing the customer to move to a cheaper package;
- reducing the monthly payments of customers who are in genuine financial difficulty to an affordable rate while they complete their debt repayment plan;
- buying back old mobile handsets for recycling;
- referring customers to debt advice agencies;
- waiving part of the debt if the customer agrees to pay the remainder within 14 days and to pay the next 12 monthly bills in full and on time; and
- writing off balances if there is medical evidence that the customer's health means that they cannot pay or are unlikely to be able to pay.

5.44. Ofcom has work underway on telecommunications debt. It is developing links between debt charities and communications providers (CPs), focused on the importance of CPs' responsiveness to the changing circumstances of consumers in debt. Ofcom is also promoting best practice among CPs in identifying vulnerable customers who are dependent on telephone service and putting in place additional measures when they face debt and disconnection. Ofcom is also developing a debt advice guide for consumers with tips on what to do if their circumstances change or if they have fallen in to debt.

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[94] http://www.bt.com/includingyou/other-products-services-bt-basic.html and http://dev.kc.co.uk/home/phone/social-access-package/.

[95] Except in cases of fraud, persistent late payment, or non-payment. General Condition 13, http://stakeholders.ofcom.org.uk/telecoms/ga-scheme/general-conditions/

5.45. More generally, Ofcom has initiatives to help consumers navigate the market, for instance consumer guides on managing communications costs or the call costs guide, and voluntary accreditation of price comparison sites to promote choice and switching. [96] It also has a number of initiatives to help consumers switch when they want to. Ofcom will continue this work and explore ways to ensure that this work is appropriately targeted at low income users and the value end of the market as well as premium services and bundles. This will include engaging with consumer stakeholders and intermediary organisations such as Citizens Advice and Stepchange, and with industry.

5.46. For post, setting a price cap for Second Class letters and packets in March 2012 had an explicit consumer protection objective, where affordability concerns were at the fore.

[96] http://consumers.ofcom.org.uk/phone/finding-the-right-deal/managing-the-costs-of-your-communications/ and http://consumers.ofcom.org.uk/2009/10/how-much-does-a-phone-call-really-cost/

6. Our proposed work for the next phase of the project

6.1. Following publication of our phase 1 report, we propose to develop two main work areas in phase 2 of the project, building on existing work being undertaken by regulators and government. We intend to progress this through 2015:

I. Consider where strategies for addressing financial vulnerability can be aligned across regulators

a. This will include developing a more common approach to some affordability indicators, taking into account different sectors, and the nations and regions covered. Regulators will consider joint reporting of data findings which could help flag up issues that regulators could jointly address.

b. Consider coordinating approaches among regulators when developing policies which address financial vulnerability, together with sharing best practice, to improve outcomes for consumers.

6.2. This will include looking at how a more joined-up approach can help consumers experiencing affordability issues. For example regulators, in conjunction with relevant stakeholders, could consider how joint approaches to addressing financial vulnerability such as signposting to third party financial advice or other assistance would benefit consumers

II. An assessment of cost impacts on future bills

6.3. Following our analysis of historic bills, we will progress work over the first half of 2015, which will examine the factors which are likely to affect bills over the next 10 years. The focus will be on the energy, water communications and rail sectors and will consider the impacts across different groups of consumers.

7. Annex 1 – Trends in consumption and bills

7.1. Since affordability depends on consumption and prices, among other factors, this annex provides details on recent trends in consumption levels, bill values, and proportion of household spend on water, energy, communications and rail services.

7.2. In the UK communications sector and the water sector in Scotland, prices generally declined in recent years. Bills in the energy and rail sectors have increased, although to varying degrees. In the water sector in England and Wales, where prices are fully regulated and fund essential investment in the services that customers value and companies are legally required to provide, the average combined water and sewerage bill is £396 (2014/15). Looking at the long-term trends, water and sewerage bills have stayed broadly flat since the start of the century - increasing by 4% in real terms over that 15-year period. Between 2015-16 and 2019-20 bills will fall in real terms by 5%, under the final determinations for PR14.

7.3. Average electricity bills based on assumed fixed consumption increased by 63% between 2003 and 2013 in real terms. Average gas bills based on assumed fixed consumption increased by 120% between 2003 and 2013 in real terms. It should be noted that this increased followed a period of exceptionally low prices during 1998-2004 and that in 2013 domestic UK electricity and gas prices (including tax) were some of the lowest in the EU-15.[97]

7.4. Combined with flat incomes, higher energy bills resulted in increased pressures on household budgets, as reflected in the share of energy spend in total household spend. Share of spend on energy increased during 2002-2012, and especially so for the low-income households. In 2012, UK households were spending on average around 5% of their total expenditure on energy, up from around 3% in 2002. In 2012, households in the lowest income decile spent approximately 8% of their total expenditures on energy, up from approximately 6% ten years earlier. However, while average share of energy spend in household budgets increased since 2002, in 2012 it was at a similar level to that in 1994, and at a lower level than that observed in the 1970s and 1980s.

7.5. Data on water and energy bills shows that they differ across regions, with consumers in some areas paying more than in the rest of the country. In particular, consumers in the South West and South of England, as well as consumers in Wales pay more for water and energy than consumers in other regions. Particularly for the water and sewerage companies, which are regional monopolies, this is due to customers paying for regional infrastructure.

7.6. In rail, where about 45% of all fares are regulated and prices increase in line with inflation, fares increased by about 18% on average between 2004 and 2013.

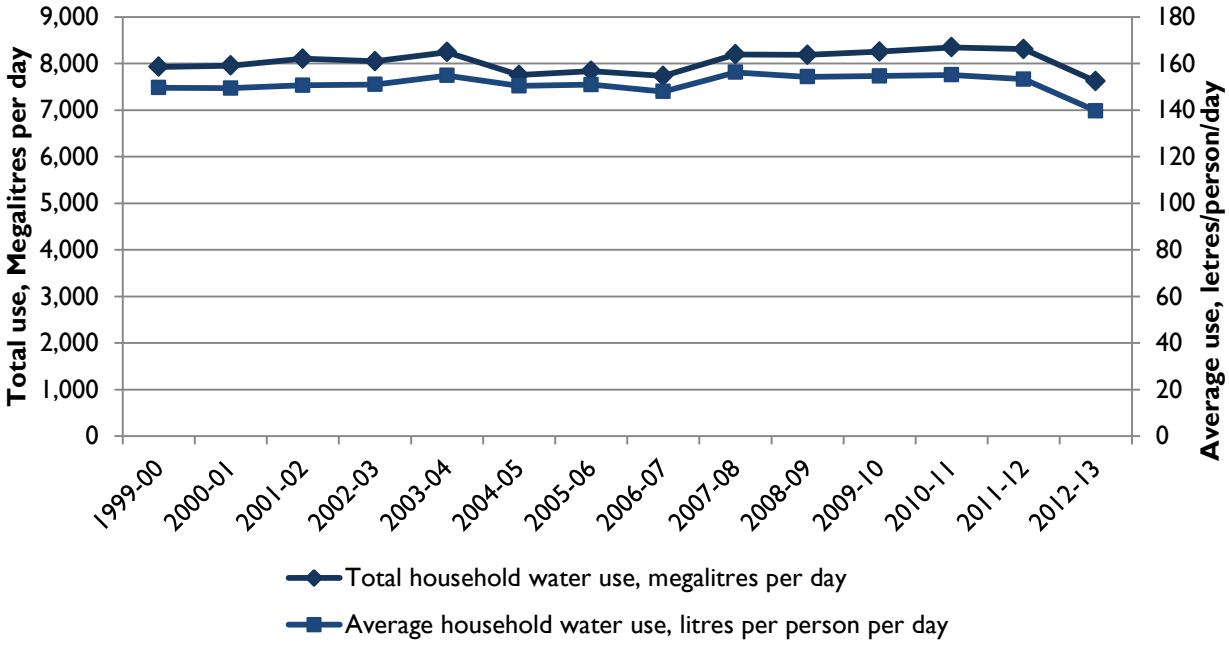
Water – England and Wales

7.7. Both overall water use and average water use in England and Wales have declined slightly over the past decade. Total household water use in England and Wales in 2012/2013 was 7,618 megalitres per

[97] DECC (2014), "Quarterly Energy Prices", September 2014, https://www.gov.uk/government/statistics/quarterly-energy-prices-september-2014 p. 52, p.56.

day (5% less than in 2002/2003 and 4% less than in 1999/2000), while average household water use was 140 litres per person per day (8% less than in 2002/2003 and 7% less than in 1999/2000). However, an unusual combination of factors underpinned the comparatively low water use figures in 2012-13. On the one hand, several water companies introduced water use restrictions in response to successive dry winters. And, on the other hand, there was an unusually wet summer, which reduced demand and eventually restored supplies, allowing companies to lift their restrictions. This was the year in which England suffered both drought and flooding. Companies have committed to saving an additional 215 million litres of water a day, by 2020, through promoting water efficiency.

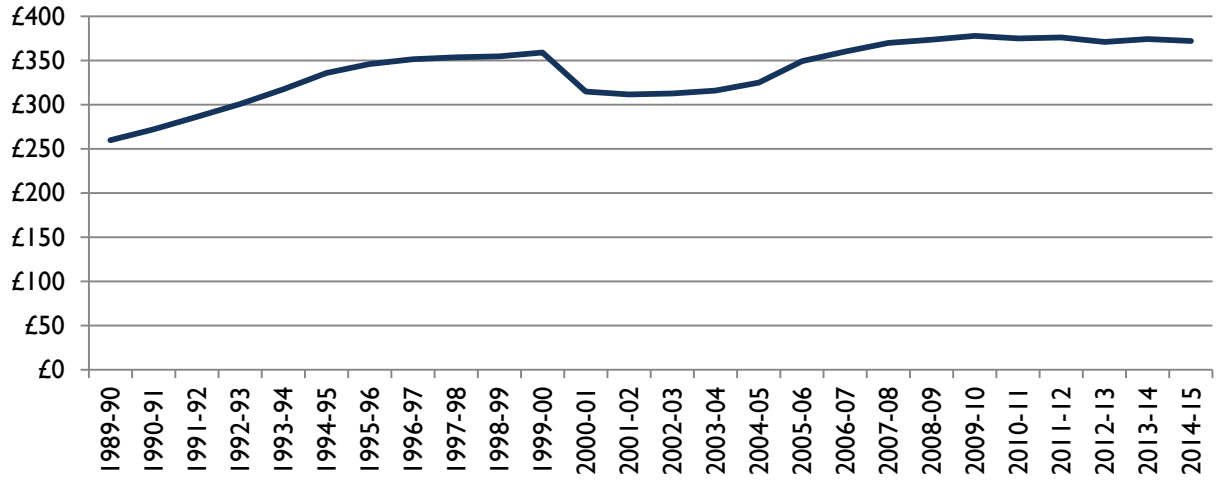
Figure 23: Household water use in England and Wales, 1999 – 2013



Source: Ofwat. Data is provided for the financial year, April to March.

7.8. In the water sector in England and Wales, where prices are fully regulated and fund essential investment in the services that customers value and companies are legally required to provide, the average combined water and sewerage bill is £396 (2014/15). Looking at the long-term trends, water and sewerage bills have stayed broadly flat since the start of the century - increasing by 4% in real terms over that 15-year period. Between 2015-16 and 2019-20 bills will fall in real terms by 5%, under the final determinations for PR14. Increased investment in infrastructure, improved water quality, and environmental measures contribute to price increases.

Figure 24: Average annual combined water and sewerage bills in England and Wales, 2012-13 prices



Source: Ofwat. Data is provided for the financial year, April to March.

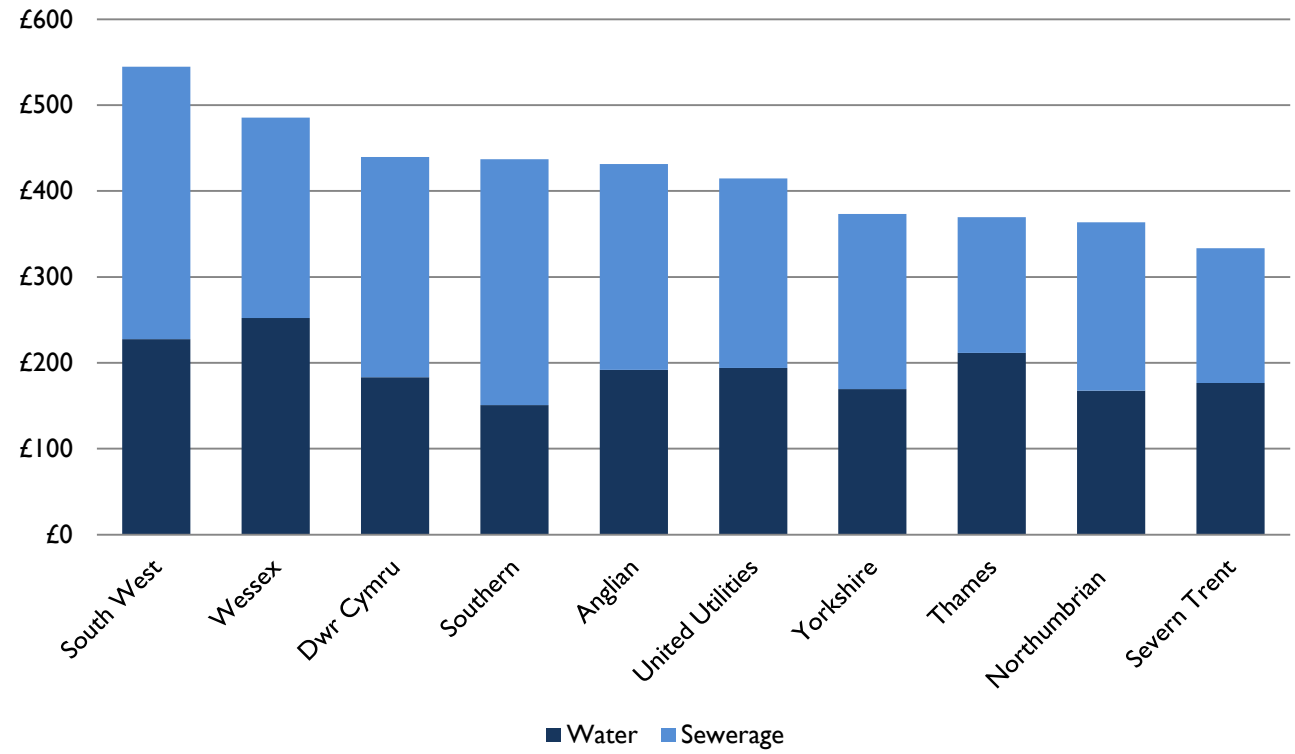
7.9. Ofwat's role has been to make sure that bills are fair. Since Ofwat came into existence in 1989, it has enabled £122bn of investment in the sector, which is twice the level of investment than in the decade before privatisation. This has driven significant improvements in service. For example: i) drinking water quality is now recognised as the best in Europe; ii) leakage is down by a third; iii) there were only 12 Blue Flag beaches – now there are more than 200 beaches gaining Blue Flag or Seaside Award status. Consumers in England and Wales are now i) five times less likely to have supplies unexpectedly interrupted; ii) eight times less likely to have their house flooded by sewage; iii) more than 100 times less likely to be at risk of low water pressure.

7.10. Across England and Wales, the water and sewerage companies operate as regional monopolies. This means that household customers cannot switch their water or sewerage supplier. The level of water and sewerage bills varies significantly across suppliers. For example, average water bills in 2014-15 range from £97 to £252, while average sewerage bills range from £157 to £317.[98] The highest combined water and sewerage bills in 2014-15 were observed in South West, Wessex and Wales, with average annual bills of £545, £485 and £440 respectively. Customers in these areas can pay up to £100 more per year on average than customers in other areas.

7.11. From April 2013, South West Water customers have been receiving an annual discount of £50 funded by the Government. The discount will be in place until at least the end of the next spending review period in 2020.[99]

[98] The range includes water bills both from water and sewerage companies and from water-only companies. The lower end of the range is the average bill for one of the water-only companies. Bills for these companies are not illustrated in the chart, which only shows average water and sewerage bills for the ten combined water and sewerage suppliers.
[99] https://www.gov.uk/government/news/south-west-water-customers-to-receive-50-off-their-water-bills

Figure 25: Average annual water and sewerage bills in England and Wales by Company, 2014-15[100]



Source: Ofwat.

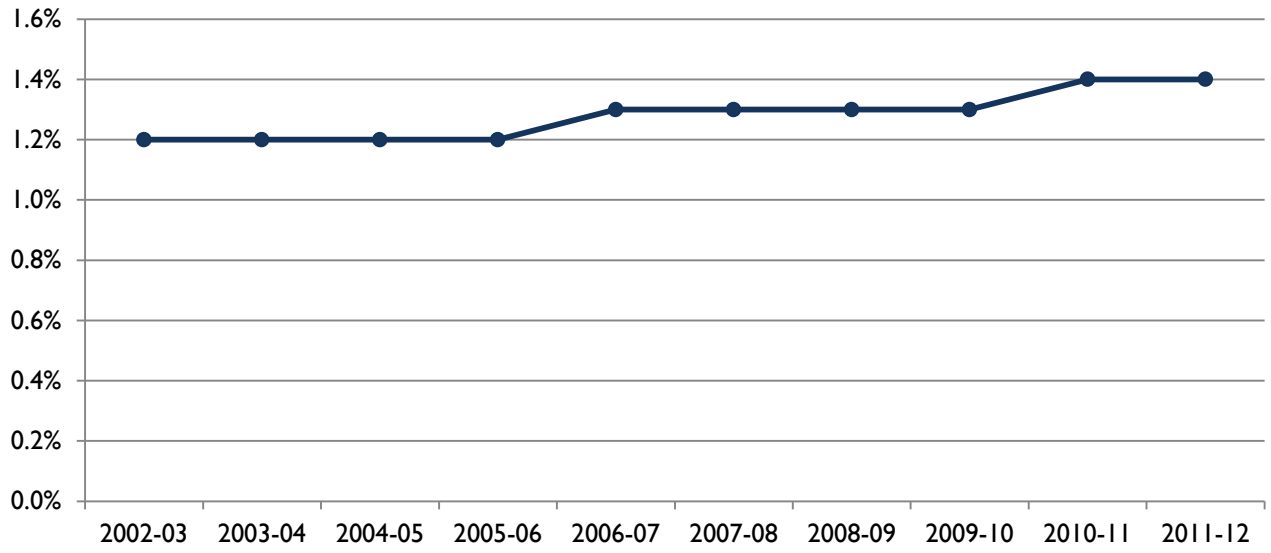
7.12. Standing charges are the norm in the water and sewerage sectors. Unmetered customers typically pay a fixed charge and an amount that varies in proportion to the rateable value of their property. The balance between fixed charges and rateable value charges would have an impact on affordability if there was a strong relationship between incomes and rateable values, but rateable value is likely to be a poor proxy for incomes (especially net of other household costs).

7.13. The balance between fixed charges and volumetric rates for metered households varies substantially between regions. The Walker report found that fixed charges made up between around 10% and 25% of average water bills, and between around 5% and 45% of average sewerage bills.[101] The greater variation on the sewerage side reflects, in particular, different methods of charging for surface water drainage and highway drainage. The balance between fixed charges and volumetric rates for metered customers will have different impacts on affordability for different groups of low income customers. So, large families will tend to be more likely to struggle if standing charges are relatively low and volumetric rates are relatively high. By contrast, pensioners living alone will be more likely to struggle with relatively high standing charges and relatively low volumetric rates.

[100] This doesn't include the £50 from Government for customers of South West Water
[101] Defra (2009), "The Independent Review of Charging for Household Water and Sewerage Services (Walker Review)", https://www.gov.uk/government/publications/the-independent-review-of-charging-for-household-water-and-sewerage-services-walker-review.

7.14. In terms of share of spend on water services, in 2011/12, households were spending an average 1.4% of their income after housing costs on water and sewerage bills. This average share of spend remained stable during 2002/03-2011/12.

Figure 26: Average water and sewerage bills as a proportion of average unequivalised income after housing costs, UK

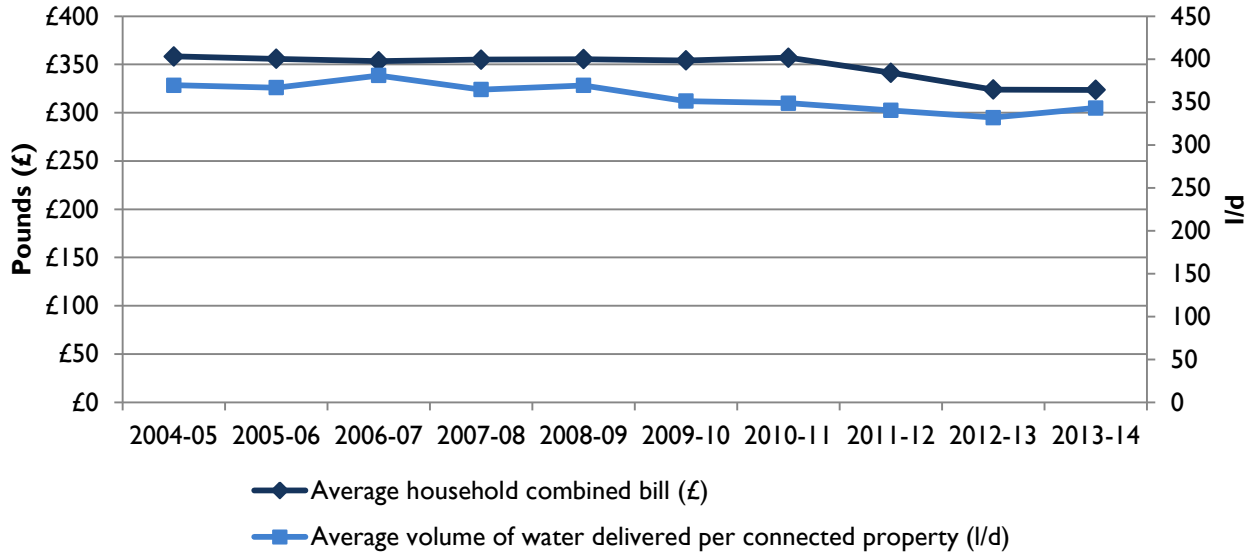


Source: Ofwat. These statistics are based on Households below Average Income (HBAI) data sourced from the Family Resources Survey (FRS). 2009-10 data taken from Ofwat report "Affordability and debt 2009-10" published in May 2011. Data is provided for the financial year, April to March.

Water – Scotland

7.15. In 2013-14, the average combined water and sewerage bill in Scotland was £324 (2012-13 prices), down from £358 in 2004-05. The average volume of water delivered per connected household property was 343 litres per day, down from 370 in 2004-05. Therefore, between 2004-05 and 2013-14, the average combined bill declined by 10% in real terms and the average water consumption declined by 7%. In 2014-15, the average combined bill declined by a further 1% in real terms, down to £320 (2012-13 prices).

Figure 27: Average household combined bill and average volume per connected household property, Scotland, 2012-13 prices



Source: WICS.

Energy

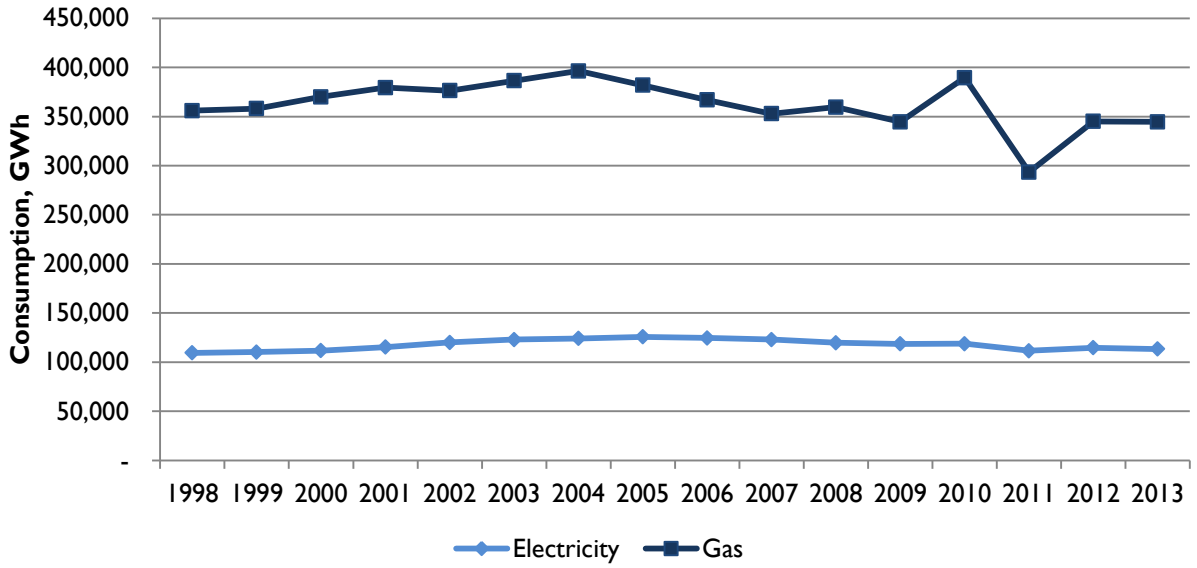
7.16. Figure 28 shows electricity and gas consumption by domestic consumers in the UK between 1998 and 2013. Although there were large fluctuations in consumption during this period, it generally declined between 2003 and 2013. During 2003-2013, domestic electricity consumption declined by 8% and domestic gas consumption by declined by 11%. This is likely due to a combination of reasons, including increased household energy efficiency in the form of greater insulation, increased efficiency of appliances, price changes, and weather patterns.[102]

7.17. Between 2003 and 2013, weather changes had a significant effect on gas consumption, with gas consumption changing up or down by up to 13% in particularly cold or warm years of 2010 or 2011 respectively. The effect of weather was much smaller for electricity. This is because more households use gas than electricity for space heating.[103]

[102] DECC (2014), "Domestic Energy Bills in 2013: The Impact of Variable Consumption", pp. 57, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/295222/Domestic_energy_bills_in_2013.pdf

[103] For example, in 2012, 77% of domestic gas use was for space heating compared to 21% of domestic electricity use for space heating (DECC (2014), "Domestic Energy Bills in 2013: The Impact of Variable Consumption", pp. 58, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/295222/Domestic_energy_bills_in_2013.pdf).

Figure 28: Total annual UK domestic gas and electricity consumption: 1998-2013 (GWh)



Source: DECC (2014), "Energy Trends Section 4: Gas" (Table 4.1), September 2014 update, https://www.gov.uk/government/publications/gas-section-4-energy-trends, "Energy Trends Section 5: Electricity" (Table 5.2), September 2014 update, https://www.gov.uk/government/statistics/electricity-section-5-energy-trends.

7.18. Figure 29 shows average annual electricity and gas bills between 1996 and 2013. The bills are calculated using assumed standard annual consumption of 3,800 kWh for electricity and 15,000 kWh for gas.[104] The advantages of using fixed consumption include ability to see effects of fuel price changes on bills, ability to produce bill estimates before actual consumption information becomes available, and the estimates being independent of weather impacts. However, bills estimated in this way do not capture the impact of reduced energy consumption, if it takes place during the period for which bill values are estimated.[105]

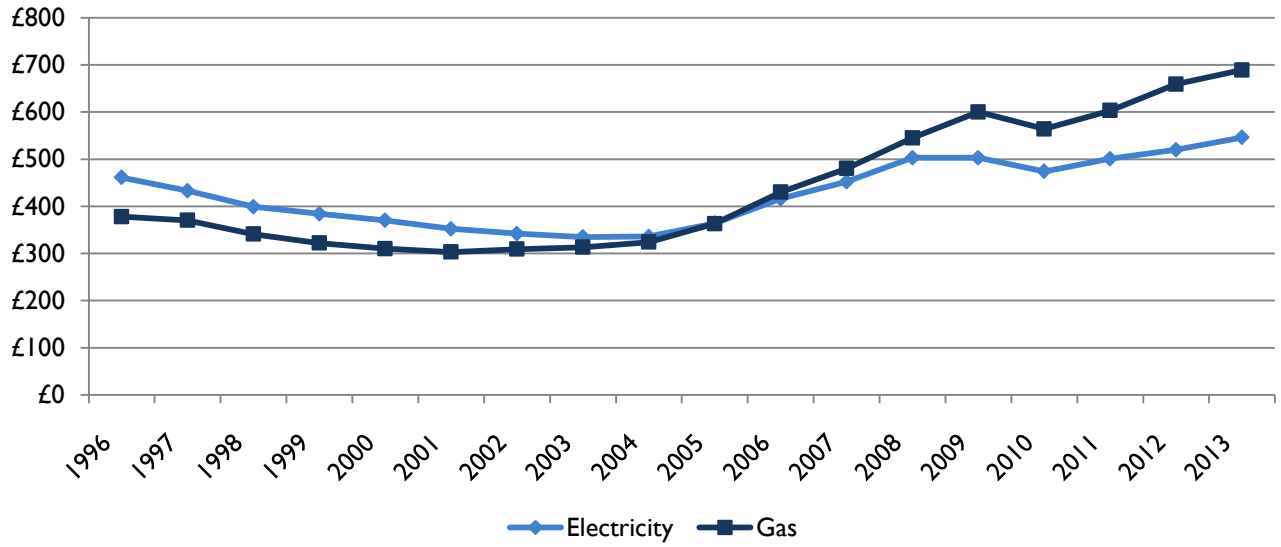
7.19. At the end of 2013, average electricity bill estimated using fixed consumption was £546 (2010 prices), while average gas bill estimated using fixed consumption was £689 (2010 prices). Between 2003 and 2013, average electricity bills based on fixed consumption increased by 63% in real terms. Average gas bills based on fixed consumption increased by 120% in real terms during the same period. It should be pointed out that this increase follows a period of exceptionally low energy prices observed between 1998 and 2004. UK wholesale gas prices have been increasing since the early 2000s, due to upward

[104] For more information on estimated fixed gas and electricity consumption see DECC (2014), "Revisions to DECC domestic energy bill estimates", https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/295244/Revisions_to_DECC_domestic_energy_bill_estimates.pdf

[105] In the March 2012 edition of Energy Trends DECC first published energy bills based on *actual* average household consumption for the years 2009 through to 2011. In 2014 DECC updated the data and provided bill values based on actual average consumption for 2010-2013. However, data for longer period is not available (DECC (2014), "Domestic energy bills in 2013: The impact of variable consumption", https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/295222/Domestic_energy_bills_in_2013.pdf).

pressure on prices in Europe and the decline of UK Continental Shelf gas production. Electricity prices have risen, as gas is an important part of the UK generation mix, and also as a result of higher coal prices, wholesale electricity prices rising from unsustainably low levels, and the introduction of the EU Emissions Trading System in 2005.[106] On the other hand, these bill values do not reflect the impact from the falls in energy consumption observed during 2003-2013 (see paragraph 7.16). It should be noted that in 2013 domestic UK electricity and gas prices (including tax) were some of the lowest in the EU-15.[107]

Figure 29: Average annual domestic electricity bills and gas bills based on assumed fixed consumption (2010 prices)



Source: DECC (2014), "Quarterly Energy Prices", Tables 2.2.1 and 2.3.1, September 2014, https://www.gov.uk/government/collections/quarterly-energy-prices,. Average annual domestic gas bills are for GB. Average annual domestic electricity bills are for UK. Electricity bills are estimated assuming an annual consumption of 3,800 kWh. Gas bills are estimated assuming an annual consumption of 15,000 kWh. Figures are inclusive of VAT. Bills deflated to 2010 prices using the GDP (market prices) deflator.

7.20. Figure 30 shows variations in electricity and gas bills across regions. In 2013, several regions had above average gas bills. These include London, Southern and West Midlands. Average gas bills in these regions were higher than average gas bills across GB by 2%, 2% and 1% respectively. Thus gas consumers in London and Southern regions paid £18 per annum and £11 per annum more than consumers on average across GB.

7.21. Regions with higher average annual electricity bills include North Scotland (7% higher than UK average), Merseyside and North Wales (5% higher than UK average), South Wales (5% higher than UK

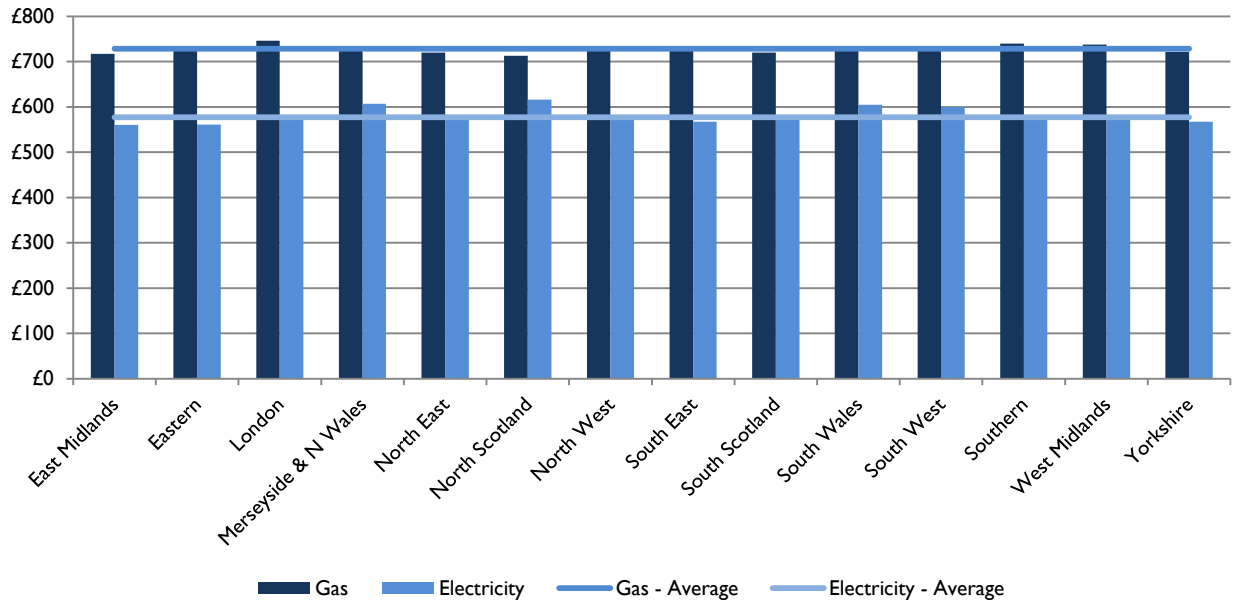
[106] DECC (2014), "Quarterly Energy Prices", September 2014 Update, p. 8, https://www.gov.uk/government/collections/quarterly-energy-prices.

[107] DECC (2014), "Quarterly Energy Prices", September 2014, https://www.gov.uk/government/statistics/quarterly-energy-prices-september-2014 p. 52, p.56.

average) and South West (4% higher than UK average). Thus electricity consumers in North Scotland paid £38 per annum more than consumers on average across UK regions. Consumers in Merseyside and North Wales paid £29 per annum more.

7.22. In some of these regions (Merseyside and North Wales, South Wales, as well as parts of West Midlands and South West) household incomes are below UK average, which suggests that some consumers in these areas may be under particular pressure to pay their bills.[108]

Figure 30: Average annual domestic gas and electricity bills across regions, 2013



Source: Source: DECC (2014), "Average Domestic Energy Bills", Tables 2.3.3. and 2.2.3, https://www.gov.uk/government/statistical-data-sets/annual-domestic-energy-price-statistics. Average annual domestic gas bills are for GB. Average annual domestic electricity bills are for UK.

7.23. In the last decade, rising energy prices, combined with flat real incomes, resulted in households spending higher share of total expenditure on energy. Using ONS Family Spending survey data, Ofgem estimates that at the end of 2012, UK households were spending around 5% of their total expenditure on energy, up from around 3% ten years earlier (Figure 31).[109] It should be pointed out that while share of energy spend in household budgets increased since 2002, in 2012 it was at a similar level observed in 1994.

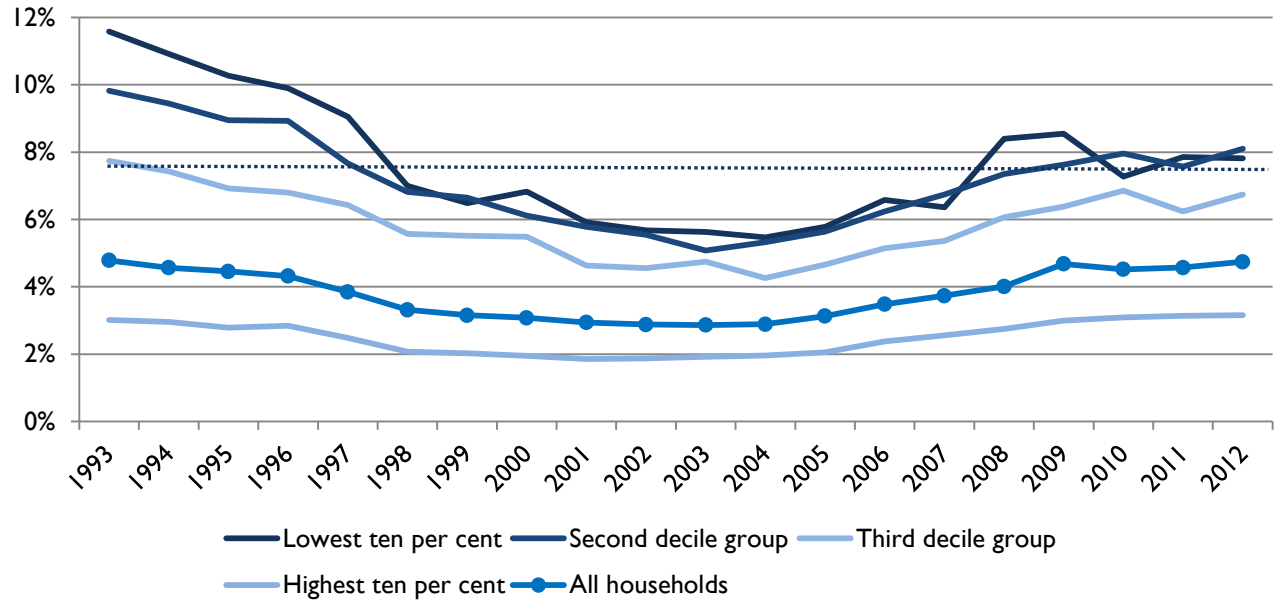
7.24. However, there is a large variation in the share of spend by income deciles. In 2012, households in the lowest income decile spent around 8% of their total expenditures on energy; while households in the

[108] Based on ONS data on gross disposable household income for 2012, "Regional Gross Disposable Household Income (GDHI) NUTS 2 tables", Table 2.3, http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Regional+Gross+Disposable+Household+Income

[109] Energy spend from the ONS "Family Spending" survey includes gas, electricity and other fuels, but it is mostly driven by gas and electricity. 2012 is the latest year for which "Family Spending" survey data is available at the time of publication.

highest income decile spent 3% of their expenditures on energy. Again, these levels of spend are not unprecedented - in 2012, the lowest ten percent were spending about as much, in relative terms, as they were spending in 1997-98.

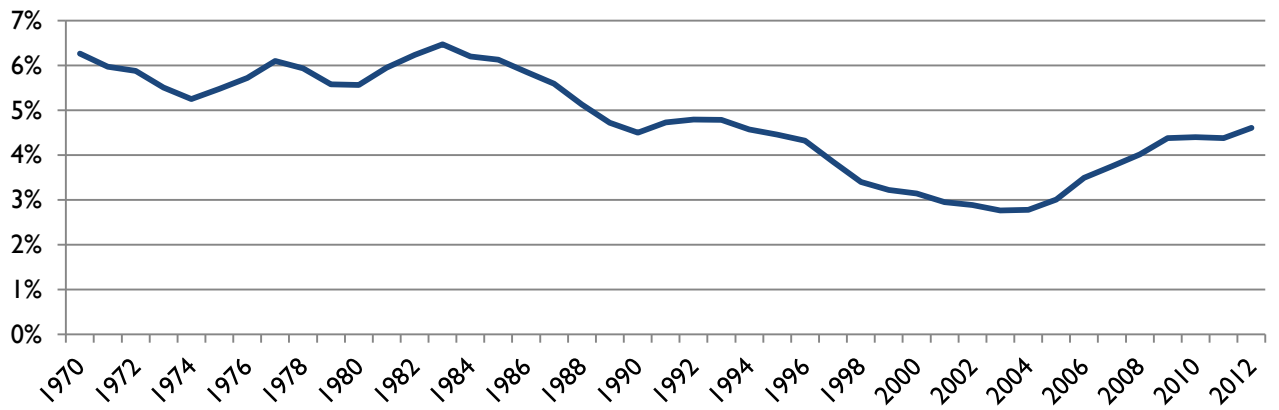
Figure 31: Energy spend as a percentage of total household expenditure by income decile, UK



Source: ONS "Family Spending", various releases (1994-2013), http://www.ons.gov.uk/ons/rel/family-spending/family-spending/index.html*; own calculations.*

7.25. Although rising, the average share of household energy spend in the last few years is not exceptional. Throughout 1970s and 1980s share of spend on energy was typically as high as or higher than now (Figure 32). Retail gas and electricity prices between 1998 and 2004 were some of the lowest in the last thirty years, and this was reflected in the lower share of household spend on energy during this period. However, in recent years, rising energy prices in conjunction with static incomes have led to steady rise in the share of household energy spend, with the relative spend levels being the highest amongst those with the lowest incomes.

Figure 32: Energy spend as a percentage of total household expenditure, UK

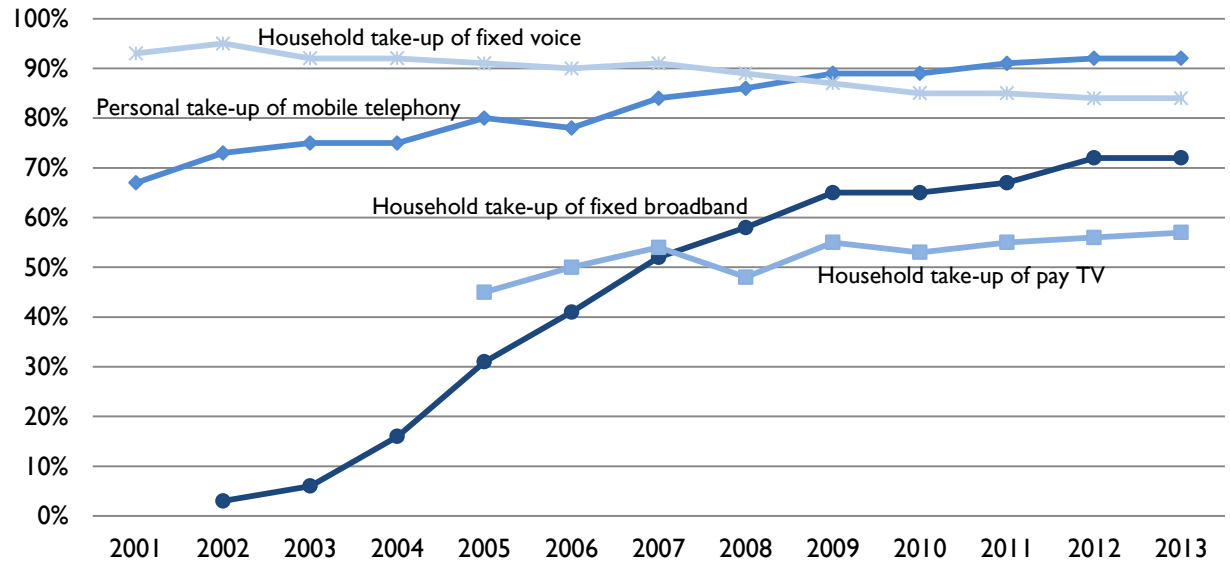


Source: DECC (2014), "UK Housing Energy Fact File: 2013", Table "4f & 4g - Household expend", https://www.gov.uk/government/publications/united-kingdom-housing-energy-fact-file-2013. Data for 2012 was estimated using ONS "Family Spending Survey" 2013 Edition.

Communications

7.26. Figure 33 shows take-up of communications services during 2001-2013.

Figure 33: Take-up of communications services during 2001-2013, UK.



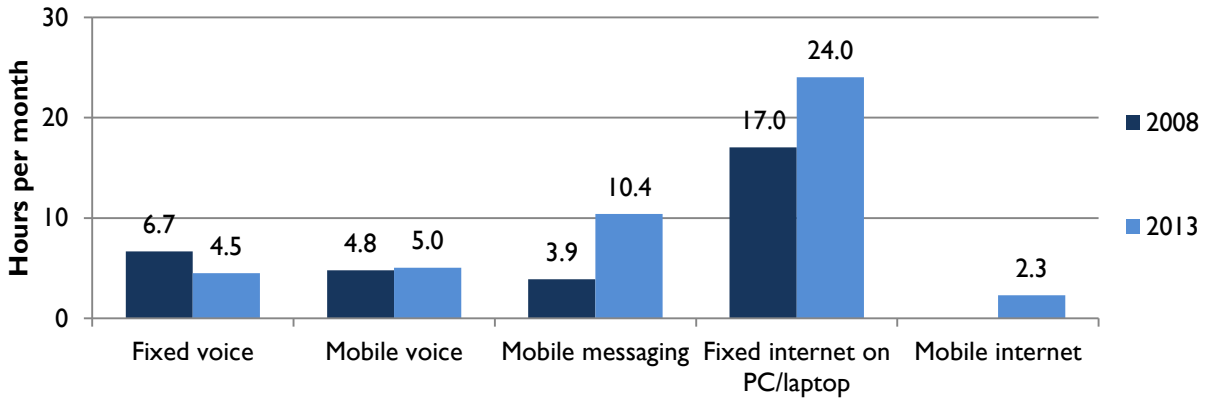
Source: Ofcom (2014), "Cost and value of communications services in the UK", http://stakeholders.ofcom.org.uk/binaries/research/consumer-experience/tce-13/cost_value_final.pdf

7.27. The take-up data can be broken down by socio-economic group (SEG) and age. Overall, those in the DE SEG have slightly lower take-up of services overall, and those aged 65+ have lower take-up of mobile (including smartphone) and internet services, but higher levels of take-up of fixed line voice services.[110]

7.28. In relation to average usage, hours spent using communication services have increased from 2012 to 2013 in relation to mobile messaging, fixed internet and mobile internet, and decreased in relation to fixed and mobile voice.

[110] CMR 2014, Figure 5.58 (Home internet access by age and socio-economic group), figure 5.76 (household penetration of fixed and mobile telephony, by socio-economic group and age), Figure 5.81 (smartphone take-up, by age and socio-economic group).

Figure 34: Average monthly time per person spent using telecommunications services, UK



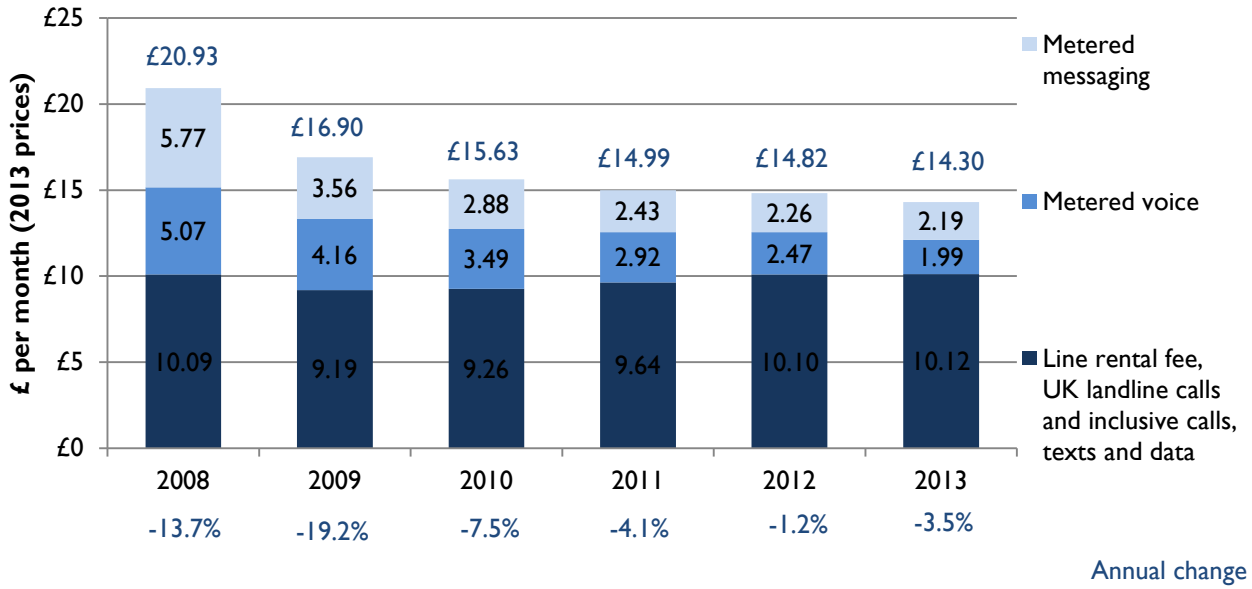
Source: Ofcom (2014), Communications Market Report 2014, Figure 5.61, http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf.

7.29. In the communications sector, competition has underpinned declines in real prices with the exception of postal services and selected pay TV services. The figures below provide prices of residential mobile services, broadband, and fixed line voice. Mobile services and internet services were viewed as essential by the majority of consumers in Ofcom's 2014 research on affordability.[111]

7.30. The price of the main communications services declined in real terms over the six years between 2008 and 2013. Real price of a basket of mobile services declined by 30% between 2008 and 2013. The price of residential fixed broadband connection declined by 12% during 2008-2013, while the speed of broadband connection increased during this period. The real price of a basket of residential fixed voice services declined by 2% during 2008-2013. This decline reflects a number of trends, notably the increasing availability and quality of internet services over both mobile and fixed connections. More recent increases in broadband prices during 2011-2013 reflect the increasing take-up of superfast broadband.

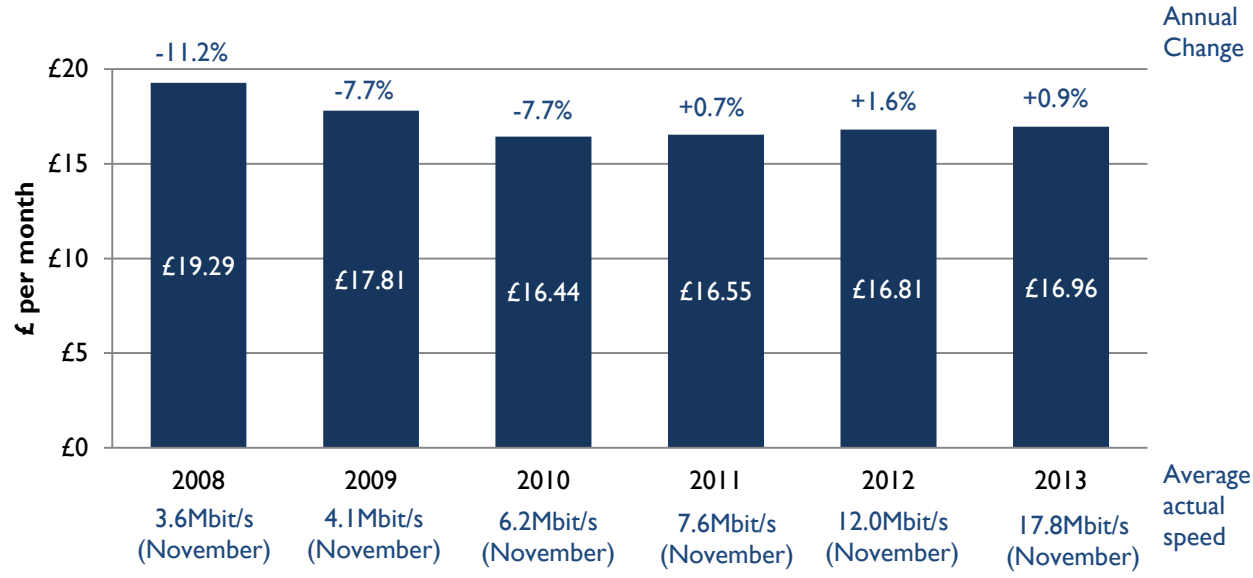
[111] http://stakeholders.ofcom.org.uk/market-data-research/other/cross-media/affordability/.

Figure 35: Real price of a basket of mobile services, UK (2013 prices)



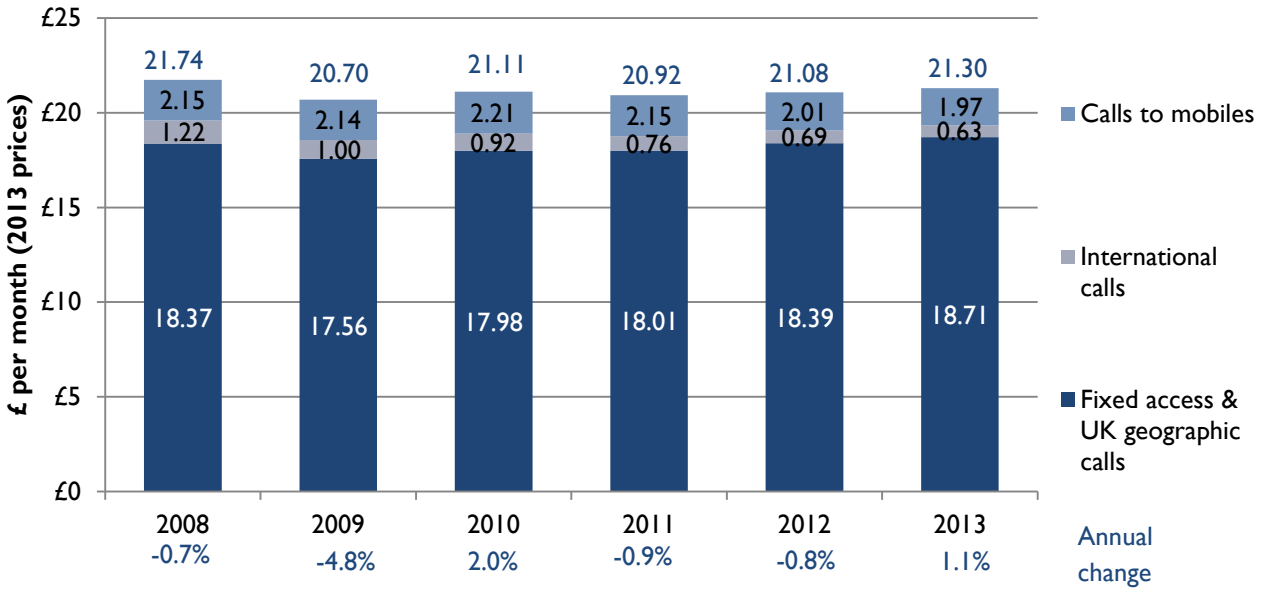
Source: Ofcom (2014), Communications Market Report 2014, Figure 5.72, http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf. Includes estimates where Ofcom does not receive data from operators; excludes non-geographic voice calls; adjusted for CPI; includes VAT. Please note that information on the source and base of all figures are available in the report.

Figure 36: Real average monthly price of a residential fixed broadband connection, UK (2013 prices)



Source: Ofcom (2014), Communications Market Report 2014, Figure 5.66, http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf. Includes estimates where Ofcom does not receive data from operators; includes VAT; adjusted for CPI.

Figure 37: Real price of a basket of residential fixed voice services, UK

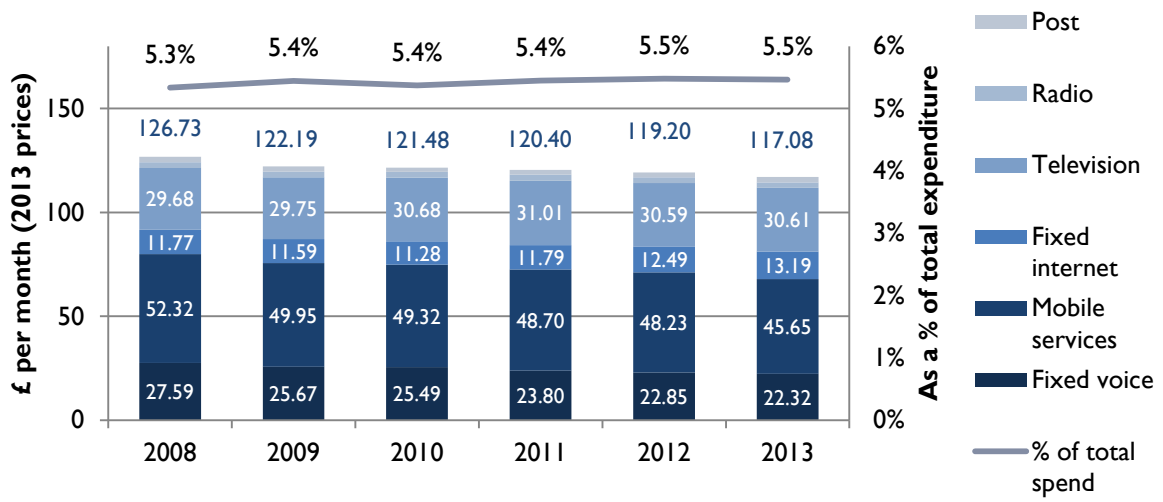


Source: Ofcom (2014), Communications Market Report 2014, Figure 5.62, http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf. *Includes estimates where Ofcom does not receive data from operators; excludes non-geographic voice calls; adjusted for CPI; includes VAT.*

7.31. Industry figures show that the average household spend on all communications services, average spend in 2013 was £117.08 per month, representing 5.5% of total household spend. The affordability research published in July 2014 by Ofcom also shows that communications spend on telecommunications is a relatively small part of household spend. Reported spend on communications services (mobile, broadband, internet via a dongle, landline and Pay TV) was £83 per month on average, corresponding to about 4% of total spend.

7.32. Household spend on communication services fell in real terms from £126.73 per month in 2008 to £117.08 per month in 2013 (7.6%). This represents a monthly saving of £9.65, or £115.80 per year.

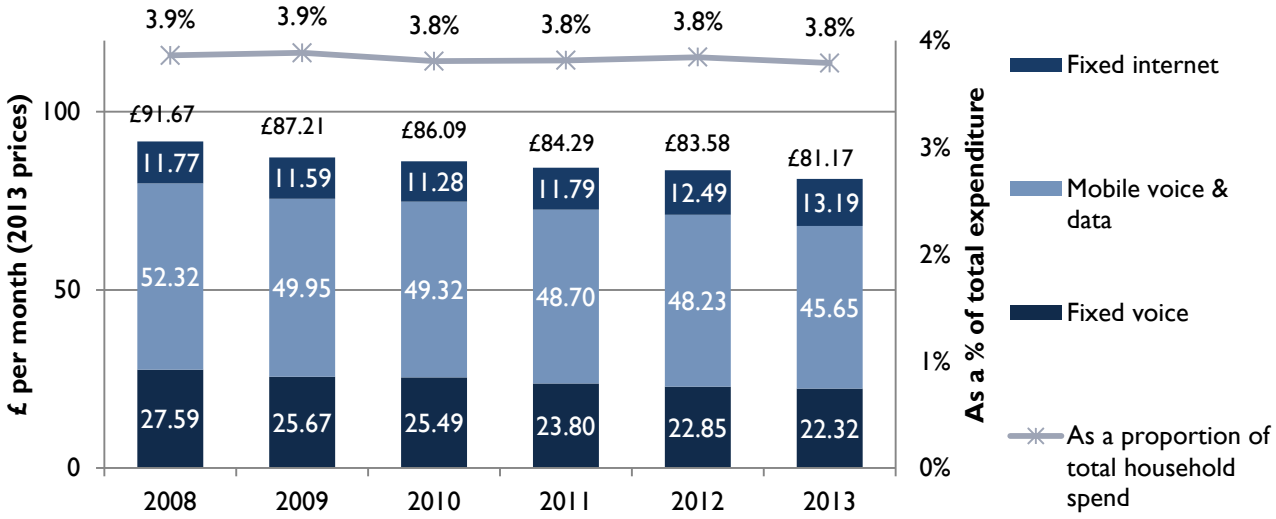
Figure 38: Average household spend on communications services (2013 prices)



Source: Ofcom (2014), Communications Market Report 2014, Figure 1.12, http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf. Adjusted for CPI; historic telecommunications figures have been re-stated, so are not comparable to those published in previous reports.

7.33. In 2013, household spend on telecommunications services (mobile, internet and fixed voice) is £81.17 per month, representing 3.8% of total spend. The share of spend remained very similar to what it was in 2008 – 3.9%, suggesting there have not been no major changes in affordability of these services for population at large, although this does not mean that it was the same for all groups of consumers.

Figure 39: Average household spend on telecommunications services

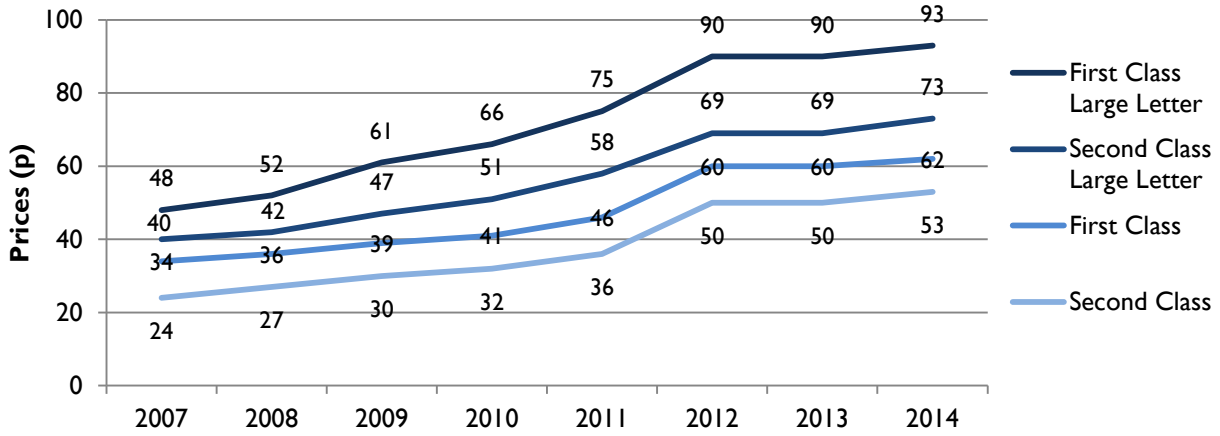


Source: Ofcom (2014), Communications Market Report 2014, Figure 5.54, http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf.Includes estimates where Ofcom does not receive data from operators; adjusted to CPI; includes VAT.

7.34. With the exception of 2013, the price for sending individual letters and postcards has increased each year since 2004. The largest increases in stamp prices took place in 2012 when First and Second Class stamps each increased by 14p. This was due to Royal Mail taking advantage of the greater commercial freedoms afforded to it under the regulatory framework implemented by Ofcom in March 2012.

7.35. In April 2014, Royal Mail increased the price of First Class stamps by 2p to 62p and Second Class stamps by 3p to 53p. Prices for sending Large Letters also increased, with the lowest price points for First Class letters rising by 3p to 93p, and the lowest price point for Second Class Large Letters rising by 4p to 73p.

Figure 40: First and second class stamp prices



Source: Figure 6.17, CMR 2014. Royal Mail. Figures are nominal. Prices refer to Royal Mail First and Second Class Standard and Large Letter list prices for letters up to 100g,

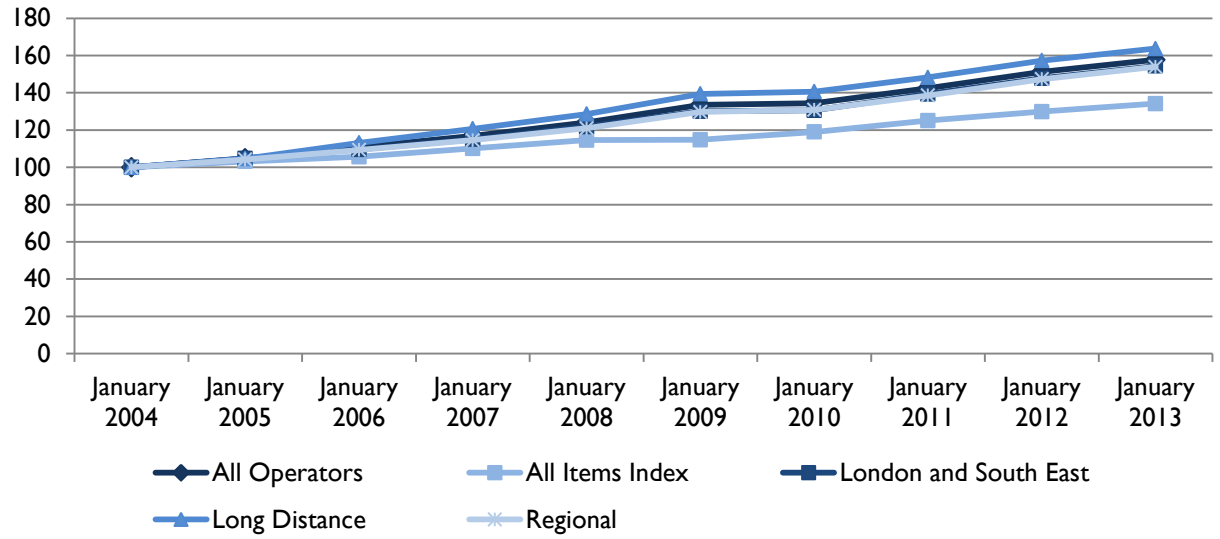
Rail

7.36. About 45% of fares on National Rail are subject to regulation. Fares on commuter routes, where consumers have few alternatives to rail, are usually regulated. The rest of the fares are unregulated and are set depending on market situation and franchise conditions. The regulated fares are allowed to increase by a set amount each year, determined by the government. The annual cap on fares is set with respect to general prices, as measured by the Retail Price Index (RPI) from July of the previous year.[112]

7.37. Rail fares have increased, in real terms, since early 2000s. In 2013 fares were 17.5% higher than they were in 2004. The average increase in fares between January 2012 and January 2013 was 4.3%. During 2004-2013, the fastest increase took place for the fares of long-distance operators (22%), while fares of London and South-East operators increased by 15% and fares of regional operators increased by 14.7%.

[112] Keep (2013), "Railway: Fares Statistics", House of Commons Library Standard Note SN/SG/6384, p.2, http://www.parliament.uk/mps-lords-and-offices/offices/commons/commonslibrary/

Figure 41: Price index of rail fares (January 2004=100)



Source: ORR Data Portal, https://dataportal.orr.gov.uk/.