Introduction

"The seven sectors examined in this report represent the goods and services essential for, at the least, social inclusion and, in most instances, survival in a modern society. For the lowest three income deciles, they represent about 60 per cent of total household expenditure."

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1. Introduction

The combination of rapidly rising food,[1] energy,[2] water[3] and transport[4] prices and the ‘credit crunch’ has thrown into sharp relief the difficulties that an increasing number of households, especially low-income households, are facing in making ends meet. If these issues are not addressed by government, there is a very real and immediate risk that low-income households will face the prospect of being unable to afford key essentials, such as energy and food, at the level required to maintain good health and an acceptable standard of living. Failure to gain sufficient access to these essentials will lead to real health consequences. A report by the World Health Organisation published in August 2008 found that life expectancy in the UK had fallen to 79 years. It blamed low incomes, poor education, bad housing and a failure to curb junk food and adopt healthy transport policies for this decline in health.[5] The ‘credit crunch’ is likely to exacerbate these problems. A survey published in September 2008 found that 56 per cent of the UK population are buying cheaper food to cut costs.

The market landscape for the provision of these essential goods and services has been transformed in the last 20-25 years. In particular, there is now a much greater reliance on markets than on government planning to ensure these goods and services are available at affordable prices. When these markets fail or become unreliable, as seems to be the case with the ‘credit crunch’ and to varying degrees with energy and food markets, the impact will be most keenly felt by those who were already facing the greatest difficulties in relation to these goods and services. This reliance on markets has significantly reduced the policy options available to government to act when social problems, such as those caused by the ‘credit crunch’ and rising energy prices, appear.

The primary features of the transformation in the provision of these good and services have been:

- Monopolies replaced by markets (energy and telecoms);
- Private ownership has replaced central government public ownership (water, energy, telecoms and rail);
- The role of local authorities has been cut back from owner of services and products to a more restricted regulatory role (buses and social housing);
- Internet price comparison sites have become a key tool for households in determining whether they are getting the best deal possible (financial services, energy, telecoms); and
- Independent sector regulators have been introduced to oversee the markets created (energy, telecoms, financial services, and rail).

It is only in the food and water sectors that the legacy market framework has remained largely intact. Food remains a free market with essentially no price controls, while the water sector is still constituted by regulated (albeit now privatised) monopolies.

The impetus for these changes has been a belief that free markets operated by private companies are invariably the most efficient way to bring goods and services to households. Implicitly, the price reductions and improved service, which it is assumed will flow from the operation of a free market, will far outweigh any negative consequences that could result from the workings of a free market, especially when compared to more restrictive forms of supplying a good or service. Any problems specific to low-income households - for example, that private companies will not have sufficient incentive to serve low-income households who, because of their low purchasing power, are unprofitable to serve - can be dealt with by imposing specific duties on regulators and by voluntary agreements or codes of practice with the private companies. With the market delivering better prices and better services the State will only have to step in to provide support as a last resort.

Where transformations in the markets for essential goods and services have taken place, these are mirrored in the ways that households have had to alter the way they relate to these markets and the ways in which they purchase goods and services from them. There is now a much greater onus on households to take responsibility for navigating and taking advantage of competitive markets in order to ensure they realise the promise of better value for money and improved service.

The barriers listed below, which low income households can encounter when engaging with a market, mean it remains unclear as to whether this is a reasonable expectation to make of low-income households.

- They may be commercially unattractive, meaning competing companies will not be motivated to try to win their custom;
- They may lack access to the facilities and competences needed to take maximum advantage of the markets, for example internet access, surplus capital to use direct debit with confidence and/or take advantage of discounted offers (2 for 1, season tickets etc);
- A budgetary need to pay up front in order to avoid the risk of unmanageable bills, for example with energy and mobile phones;
- Financial and social exclusion issues and basic skills deficit.

This research will focus on the experience of low-income consumers in relation to the purchase of seven key essential goods and services: energy, water, public transport, telecommunications, financial services and food. It will seek to ascertain:

- The extent to which free, competitive markets have been introduced in each sector;
- How far the theoretical benefits of markets have actually been realised;
- Whether these benefits are limited to more affluent households who possess the skills and resources to exploit the potential of the market;
- The extent to which the market in each sector has shown itself capable of (a) ensuring adequate provision for; and (b) serving the interests of low-income consumers.

Where the theoretical benefits of markets have not been realised, we ask:

- To what extent is this to the particular detriment of low-income consumers?
- Are the problems evident in the functioning of the energy market symptomatic of the problems that low-income households face in their procurement of essential services in other markets?
- What mechanisms and measures have been introduced to ensure adequate provisions to low-income consumers and how effective are these?
- Who has been responsible for implementing these protective mechanisms and measures?
- Are there lessons that can be learnt for the energy sector?

The aim is not to determine whether the advent of privatisation and/or liberalisation in these essential services has been beneficial: this would require the construction of highly contentious 'counterfactuals' (i.e. what would have happened if the old structure had not been changed?). This report will therefore limit itself to examining the extent to which free, competitive markets for essential goods and services ensure adequate provision to low-income consumers and to what extent the interests of this group are well served.

2. What purchases are essential?

The debate over what represents an essential good or service in a modern society is often contentious, particularly as the list of goods and purchases regarded as essential for social inclusion expands with growing prosperity and technological developments. Much as the framework for the delivery of essential goods and services has been transformed, and much as consumer behaviour has evolved in response, the product or service itself has also undergone changes in some sectors.

Services generally now regarded as essential, a land-line and/or mobile telephone for example, would, in the case of a land-line telephone, have been regarded as a luxury 50 years ago, while mobile telephones did not even exist 30 years ago. Now the ready availability of a telephone line is regarded as an essential for social inclusion and, for some vulnerable households with particular health conditions, essential for survival. Nevertheless, few would dispute that the seven service and product sectors examined in this report are essential. The rationale for the sectors chosen is set out in Section 6.

3. Changes in delivery of services

For many goods, notably food, free markets operated by privately-owned companies have long been the rule. However, in the past two decades, services such as energy, telecoms and public transport - previously supplied by publicly-owned companies under monopoly conditions - have been transformed into privatised businesses, operating wherever possible through competitive markets. Water services have also been privatised, but objectives to introduce competition in the domestic sector have so far come to nothing.

This report examines how well these changes have served low-income households, focussing particularly on energy and comparing it with the six other essential goods and services listed above. These seven sectors account for a significant proportion of household expenditure and access to them is a fundamental pre-requisite to households being able to participate fully in society: so-called social inclusion.

The energy sector provides a clear illustration of the tensions that are emerging due to the difficulties in reconciling the public service obligations that underpin the provision of such an 'essential to life' service, with the prevailing belief that fully competitive markets are the best vehicle by which to deliver both electricity and gas. Perhaps the most telling manifestation of this tension can be found in the government's efforts to eradicate fuel poverty. The UK Fuel Poverty Strategy (2001) stated the government's belief that 'the best way to ensure that fuel is affordable to consumers is through liberalising energy markets and promoting competition'.[6]

Yet, in 2008, we find a situation where the prices dictated by the competitive market are driving the level of fuel poverty upwards. The growing differential between the price paid by pre-payment meter (PPM) consumers, predominantly low-income households, and those that pay by direct debit and operate their account on-line, predominantly higher-income households poses further questions about the efficacy of the competitive market in the provision of gas and electricity to low-income households. The precise differential between prices PPM and direct debit consumers pay varies somewhat as prices fluctuate. In July 2008, energywatch estimated that PPM consumers are paying on average 23 per cent (£203 per year) more than a consumer who pays by direct debit through online tariffs.

Worst off are those consumers who have chosen not to move away from (or are unable to move because of debt) from their incumbent suppliers. In July 2008, a PPM consumer in Yorkshire who still bought their gas from British Gas and their electricity from npower (owner of Yorkshire Electric) would on average be paying 43 per cent (£361 per year) more than the cheapest deal.

4. Marketisation and liberalisation of public services

Prior to important UK public services being privatised and opened to competition, it was possible, at least in principle, to ensure that low-income households paid no more than a fair rate for these services; that is, a rate that reflected the actual, if not always efficient, costs incurred in providing the service. Companies with monopoly rights, especially publicly owned ones, could easily be required to meet social obligations, sometimes subsidised by taxpayers and sometimes cross-subsidised by other consumers. For example, following privatisation of the electricity industry and prior to the introduction of competition for household consumers, the regulator required that prepayment meter consumer rates were no more than 10 per cent higher than standard rates. In theory, the model of state ownership and monopoly powers had the potential to enable a good balance to be struck between social policy concerns and economic pressures, rather than the former being subjugated to the latter. In practice, these arrangements were far from perfect, but there were no structural barriers to prevent them being made to work other than the intrinsic difficulty of designing the mechanisms for such an arrangement/balance of interests to work efficiently. Liberalisation sees government surrender 'the levers' in this sense against a promise that the benefits of markets would more than outweigh their loss.

Since the 1980s, nationally-owned public services have been privatised and, where possible, opened to competition, starting with telecoms (1984), gas (1987), electricity (1990) and rail (1995). Buses, which up to 1986 were often publicly owned on a local basis, were also moved to the private sector and greater competition was promoted. The water industry, which was nationally-owned through a number of regional companies, was privatised in 1989. Although sporadic discussions about introducing competition have so far come to nothing, the sector regulator, Ofwat, is still examining ways of introducing consumer competition.[7]

The introduction of free markets has created tensions with the public service obligations that were previously enforced. The duty of private companies in competitive markets is to maximise profits for their shareholders. They are therefore motivated to charge as much as the market can bear and are inclined to gravitate towards the most profitable consumers. Whilst recognising that political expediency, reputation enhancement and commitments to socially responsible behaviour can all lead private companies to make concessions to some low-income households, schemes that have a significant cost and/or run contrary to competitive instinct will be seen as implausible, unless they are imposed on the companies, such as the Universal Service Obligation that is imposed on BT. Ironically, it is relatively easy to require BT to shoulder this responsibility because they retain the dominant share of the household market. If the market was much more competitive, it would be difficult to identify a single company to take on this responsibility and imposing such an obligation on the large number of competing companies needed for a truly competitive market would be difficult.

Reforms to public utilities have not been confined to the UK. For the past two decades, the European Union has passed a series of Directives[8] relating to public services aimed at opening them up to competition, but also formalising Public Service Obligations. Of the sectors examined, energy, public transport, telecoms and water are categorised as 'services of general economic interest'.[9] Under the Charter of Fundamental Rights:

> *the Union recognises and respects access to services of general economic interest as provided for in general law and practices, in accordance with the Treaty establishing the European Community, in order to promote the social and territorial cohesion of the Union.*

Electricity, telecoms and water are categorised by the European Commission as 'Universal Services'. Under EU policy, this means that the service has to be made available to all consumers of a Member State with a specified quality and at an affordable price, including complete territorial coverage.

5. A longstanding concern

Consumer organisations have long been concerned by the problems that low-income groups can experience in securing adequate provision of essential goods and services and the various ways in which markets can leave this group disadvantaged. For example, the UK National Consumer Council (NCC) has campaigned on this issue for at least 30 years (NCC, 1977), even before the policies to transform provision from monopoly supply to competitive markets for many of these services were introduced. The findings of its most recent research on this subject (NCC, 2004) can be summarised under three main headings:

- **Understanding consumers' needs.** The NCC found that 'there is no consensus about which goods and services are essential to meet consumers' basic needs, and therefore what policies are needed to ensure inclusion. More fundamentally, there is poor understanding of consumers' real needs; often disadvantaged consumers are left to choose from services that are inappropriate.'

- **Changing nature of service provision.** NCC found that: 'there is little consistency or focus in government policy towards the increasingly important role of the private sector – from water and telecommunications through to services such as transport.'

- **Barriers to access.** NCC found that: 'disadvantaged consumers face many barriers gaining access to essentials, and contend with fewer resources (such as money and transport) and skills (such as numeracy).

While the aim of the NCC study was to generate debate and stimulate research into solutions to this problem, it offered three proposals for discussion:

- **Identification of essential needs:** An independent commission should identify the essential goods and services that all consumers should have access to.

- **Needs-based assessment of minimum income:** The commission should consult on appropriate minimum income standards required to purchase essentials and make recommendations to the DWP to adjust income support measures accordingly. These should then be revised annually.

- **Universal, equitable access to essentials:** Government, regulators and suppliers should work together to improve access to essentials, not least by tackling the higher costs of access experienced by disadvantaged consumers. This should include agreeing consistent standards on accessibility, affordability and appropriateness of services (the NCC did not call for off-the-peg solutions or simple subsidy).

6. Market characteristics of the sectors examined

Of the seven sectors examined, only food and drink comes remotely close to the characteristics of a free market envisaged in economic theory. In simple language, this is based on a vision of identical goods being sold from a large number of market stalls all prominently displaying their price (see Table 2). This requires that:

- There are many firms, each having an insubstantial share of the market;
- There is free exit and entry into the market; in other words, it is easy to set up a new company and there is no obligation on existing companies to stay in the market;
- There is a homogeneous product;
- There is perfect factor mobility; in other words, producers are free to sell their products and services to any market they choose;
- There is perfect information; in other words, all buyers and sellers have complete knowledge of all market information at all times.

In practice, economists acknowledge that no market that meets or largely meets all these criteria can ever exist. The assumption is that the benefits from an imperfect market will be greater than the costs that inevitably arise because of these imperfections.

Put simply, food consumers usually have a choice of supermarkets from which to buy, prices are displayed and it is possible to check which supermarket is cheapest. Few barriers/costs to exercising choice exist, e.g. you can walk out of Tesco and into Asda, or even purchase some items from both. In the longer term, if markets are not working well, new supermarkets will be opened where there seems to be a need. In practice, even for food and drink, as the chapter here demonstrates, the market is far from perfect.

- Companies use eye-catching offers on high profile purchases to lure in customers, but it is not easy to judge the cost of the full range of items required – information is far from perfect.
- The big four supermarket chains control about 75 per cent of the market. While it would be relatively easy to open a small grocery store, their buying power and control of prime sites etc. mean that it would be extremely difficult for a new company to rival the big four – there are not many firms each with an insubstantial market share and there is not free entry and exit from the market.
- Many products are dominated by strong brands, which are often preferred over 'own brand' and unknown brand goods of apparently similar quality – there is not a homogeneous product.

Nevertheless, despite the apparent dominance of the big four, the economic pressures on household budgets are leading some households to move towards low-price supermarkets, such as Lidl and Aldi.[10] The big four supermarket chains will have to respond by reducing (or appearing to reduce) their prices if they are to retain their market share. So markets could arguably be said to be working even in as concentrated a sector as food.

6.1 Energy

Energy is a fundamental necessity for human life. In a modern society, this means a connection to an electricity supply network and, in many cases, a natural gas connection, although bottled gas or fuel oil can serve as substitutes for the latter where economic reasons mean a network connection is not viable. Natural gas and electricity are entirely standard products, there is little opportunity to postpone demand and, for consumers, storage of natural gas and electricity is impossible, meaning energy has to be bought at the moment of need. The opportunity to purchase energy through a competitive market had become available to most consumers by 1998. Unlike most of the other sectors, energy is a major purchase for industrial consumers so, in a market, household consumers are competing in the market with industrial consumers. One particular problem associated with the introduction of competition is that retailers buy their energy from a market where the price is set every 30 minutes and there could be very wide variation during the day in the wholesale price. By contrast, meters for residential consumers are at best still only read quarterly, so there is no way for the retailer to know on what day and at what time an individual consumer has consumed their energy. This means there is no way to accurately pass on high wholesale prices to the consumers that actually consumed this energy at the peak time.

This is one of the problems that has led to pressure for ‘smart meters’ which record and transmit consumption data on a 30 minute basis. If smart meters were to be used to send price signals to consumers, for example, charging high prices in peak hours, this could, depending on the tariff/charging framework adopted make the choice of supplier very difficult because the consumer would not know in advance what price was going to be charged. It would also open the way to very high prices being charged on cold winter days when demand was high and when vulnerable consumers might choose not to consume on cost grounds.

One major difference compared to the other sectors (with the partial exception of water) is that energy demand is a derived demand. Consumers do not want a kWh of electricity or a therm of gas, they want the service this will provide and the amount of energy needed to provide will depend heavily on the efficiency of the equipment used and, for heating, the thermal properties of the dwelling. So energy consumption is not a reliable indicator of energy service received

6.2 Water and sewerage[11]

Like energy, water is a fundamental necessity for human life. It is also an entirely standard product: there is relatively little opportunity to postpone demand and it is a major purchase for many large industrial consumers as well as residential consumers. It is clear that water supply for residential consumers in England and Wales will, for the foreseeable future, remain a fully regulated business, operated by regional monopoly companies with prices set by the regulator. There are substantial variations in prices between suppliers. But rural consumers do not pay systematically more than urban consumers and disconnection of occupied houses is banned by law.

There are statutory requirements on the companies to include special provision for assistance for metered consumers with above average consumption, but on the basis of narrow and inflexible criteria. The take-up rate of this assistance is extremely low and as the chapter on water shows, this low take-up is due to rigid eligibility criteria and low awareness rather than a lack of need for such a service.
There is a particular problem of assessing consumption. The majority of residential consumers are not metered and their charges are based on the size of the premises. For some consumers, those living in flats for example, individual meters might not be viable. The issue of metering raises complex questions of reconciling economic efficiency and responsible use of resources with the need to ensure that all consumers are able to access an affordable supply of this essential commodity. It seems reasonable to assume that if consumer charges were based on actual consumption, consumers would use less, but the risk would be that low-income households, particularly large families, would be forced to use less than would be desirable on health grounds.

6.3 Financial services

This is a complex sector that, for our purposes, can be divided into two main streams: banking services and insurance services. Both of these can be subdivided further with mortgage provision, access to other credit needs and current accounts being important parts of banking services.

While access to financial services is not a fundamental necessity, it is highly desirable that all citizens should have good access to these services from the point of view of social and financial inclusion. Access to a good range of financial services is often necessary for unlocking the best deals in a number of the sectors covered here, such as the best energy and mobile telephone tariffs.

People with poor credit records or have hitherto survived in a cash economy do have difficulty getting bank accounts and 'basic' bank accounts have been introduced, following government pressure on the banking industry. Whilst this enables low income consumers to access accounts with modern electronic capabilities, it also allows government to save money by facilitating the payment of benefits by electronic transfer. Some, but not all, basic bank accounts allow users to set up direct debits, although those who are restricted to basic accounts may not have stable enough finances to allow this. Overdrafts are not allowed and so users do not address the issue of access to credit. This may mean that poorer consumers may have little alternative but to use more expensive forms of credit than would be offered through the normal commercial channels. Mortgages would also be harder to get, or at least more expensive, for consumers with poor credit records or whose choice of property is restricted. The mortgage sector is not examined in detail in this chapter.

For banking, there are also issues of access to branches as the number of banks outside major conurbations declines.

In the insurance field, premiums paid depend heavily on 'post codes' and citizens living in problematic areas face severe additional costs. This may lead to some citizens having to forego insurance cover for things where cover would be very desirable, such as home contents insurance for example.

However, there has been a considerable change in the willingness of citizens to switch supplier of financial services regularly, although identifying the best deal is much easier for those with easy access to a computer and who are comfortable using the internet to search price comparison sites, which can often make it easier to make product comparisons.

6.4 Communications

Twenty-five years ago, the communications sector was a simple sector with a lot in common with energy and water as a regulated monopoly with a limited product range. Now, the widespread availability and adoption of broadband and mobile telephones means that the sector is much more complex and diverse. The landline network is still a monopoly activity, but the availability of mobile phones and new cable networks means the scope for abusing the monopoly power is much reduced. For some analysts, this is a demonstration that, in the long-term, no activity should be regarded as a 'natural monopoly' as markets will, if allowed, find ways to break a monopoly.

The monopoly element is now restricted to the network connection for both fixed landline and mobile telephony. Competition in the fixed line market has been driven by regulatory pressure and by new entrants. In mobile telephony, competition has always occurred at the retail end and focuses increasingly on multi-functionality and bundling of products and services. Nevertheless, a high proportion of fixed line domestic consumers have chosen to stay with the former monopoly provider even though for many consumers it would not necessarily be the cheapest option. This may be due in part to inertia, lack of confidence in new, untested suppliers and the increasing complexity of tariffs which make it difficult to determine the relative prices that different competing companies would charge for a given pattern of calls.

One of the most important aspects of the fixed line market is the continued existence of legal requirements on British Telecom (BT) to provide a universal service nationally (under the universal service obligation or USO). Amongst other things, this means that BT's prices have to be geographically averaged and that BT has to meet all reasonable requests for connection to the telephone network. There is an overt recognition in the legal requirements concerning affordability of basic fixed telephony services, and BT has some albeit limited schemes to help low users and those on low incomes, according to defined criteria.

For consumers outside major conurbations, provision of broadband is not always available and mobile phone networks are less reliable in more remote districts. Communication technology is also increasingly seen as an essential element of social inclusion, but there are few policy measures to ensure access for all consumers.

6.5 Public transport

Public transport can be divided into local public transport, mainly buses, and regional and national services, such as rail and long distance buses. For social and economic cohesion, access to these services is important. There are also generally significant environmental benefits in measures that encourage citizens to travel by public transport rather than private cars. As a result, there are a range of public subsidies provided, such as subsidies for rail routes that provide important links and free bus passes for senior citizens.

In terms of structure and pricing, there were attempts to introduce market competition in local buses with different companies competing over similar routes, but there has been a process of concentration so that most areas are again served essentially by a monopoly, owned by one of only a handful of large companies. The long-distance bus sector is also now very concentrated.

The rail sector was essentially privatised as a series of regional monopolies that were allocated on a franchise basis after a bidding process. There has been concentration here as well and a number of regions have been combined to gain scale economies. As with telecoms, pricing has become complex and consumers have little confidence that they can readily identify the cheapest option. It remains to be seen how successful the simplification of fare structures announced in May 2008 will be.[12]

6.6 Food & drink

Like water and energy, food and drink is a fundamental necessity to human life. However, in the UK the system of supply has always been very different from these services, as it has always been based on a free market. The sector is highly diverse and, even within the same basic product, there is usually scope for significant product differentiation, for example on quality or between brands (including 'own brands'). While the big four supermarkets - Tesco, Sainsburys, Asda/Walmart and Morrisons/Safeway - have between them 75 per cent of the grocery market, there are niche low-price suppliers, for example Lidl and Aldi, as well as small local outlets. However, those living outside major conurbations may be much less able to take advantage of a competitive market if the local population is not large enough to support a sufficient number of competing retailers. One issue is to what extent the viability of small local outlets is threatened by the large supermarkets. The loss of these local, albeit higher-price, shops may pose a particular threat to low-income consumers if the large supermarkets are not easily accessible to them.

6.7 Housing

Adequate housing has long been recognised as a necessity in a modern developed society and, as a result, a very extensive system of support exists to try to ensure that all citizens have adequate housing. The sector can be divided into at least three main forms of provision: owner-occupier, private rental and social rental including council housing and housing association properties. In addition, there are a significant number of people who are homeless, either sleeping rough or in hostel accommodation, who must also be considered.

Housing provision has an important impact on energy purchases as a major determinant of the type and amount of energy required, particularly for space and water heating. Housing is also likely to determine water bills. As a result, the amount a comparable household has to spend to receive the same energy service could vary considerably, and it is widely recognised that 'fuel poverty' can only be effectively tackled by policies that include measures aimed at improving the thermal properties of the housing stock.

7. Household expenditure on the essential goods and services examined here

A study commissioned by the Joseph Rowntree Foundation and published in July 2008 (Bradshaw, 2008) aimed to establish a Minimum Income Standard (MIS) for households. It was based on group discussions and workshops with members of the public in which groups negotiated what items were essential for this standard, focusing on *needs*, not *wants*. The MIS budgets are based on detailed lists of what is required by different household types, including: food; clothes; accommodation; utilities; fuel; household goods; personal goods and services; transport; and social and cultural activities. The study[13] found that in order to maintain a minimum, socially acceptable quality of life in 2008:

- a single working-age adult needs a budget of £158 per week;
- a pensioner couple needs £201;
- a couple with two children needs £370; and
- a lone parent with one child needs £210.

Most people relying on basic out-of-work benefits do not reach this standard. A single person on Income Support gets less than half of the MIS figure. Out-of-work families with children typically get two thirds. However, pensioners receiving Pension Credit do reach the minimum income standard:

- A single adult, working full time, needs to earn £6.88 an hour to reach this weekly standard, compared to the minimum wage of £5.52.
- For almost all household types considered in the JRF study, the minimum income standard is above the threshold used to measure relative poverty – 60 per cent of average (median) income. The great majority of households below this poverty line cannot afford a standard of living that members of the public participating in the study considered to be the minimum acceptable in Britain today.

If we look at Family Spending statistics (see Table 1), we can see that a family with two children would have to earn in the top 40 per cent bracket of household income to achieve this 'basic but acceptable standard of living', while even a single person living alone would have to earn enough to place them at the top of the second decile to meet this standard. So if the Rowntree study is correct, it would seem likely that around 40 per cent of households in Britain do not earn enough to meet this standard.

However, while the Rowntree study led to debates about whether a bird feeder, a bottle of wine or film tickets should be on the list of goods people need to participate in society, generally, the necessity to have access to goods and services in the sectors we are examining is much less debateable.

Table 1 Weekly (£) spending excluding rent and mortgage

	Lowest 10%	Second decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile	Top 10%	Average
Average spend	123.20	136.50	186.10	265.90	290.00	293.90	370.80	432.50	523.90	674.00	333.00

Source: *National Statistics (2008) 'Family spending: 2007 edition' Palgrave MacMillan, London*

The Rowntree study attempted to identify how much households would need to spend for a 'socially acceptable quality of life'. The following examines what low-income households, many of which do not earn enough to meet Rowntree's Minimum Income Standard, actually do spend on the essentials.

Using the government's Family Spending statistics[14] we can examine how households, and in particular low-income households (those in the lowest three income deciles), apportion their expenditure between different essential goods and services (see tables 3 and 4). Education and health are crucial services for all income groups. However, the availability of state provision that is largely free at the point of delivery means that these items represent a very low proportion of household expenditure, although expenditure on these items tends to increase a little in percentage terms as the highest income groups opt to pay for private provision.

We can see that some of the 13 main classifications of expenditure follow a pattern of the higher the income, the higher the expenditure, but the percentage it represents of total household expenditure remains fairly constant. For example, expenditure on clothing and footwear represents about 5 per cent of household expenditure for all income categories. The percentage of income spent on alcohol, drinks and tobacco, household goods and services and recreation and culture is also fairly constant for all income groups.

However, for essential requirements, such as food and non-alcoholic drink, housing, fuel and power and, to a lesser extent, communication expenditure as a proportion of total expenditure decreases as income increases. For example, expenditure on food and non-alcoholic drink accounts for 16 per cent of the expenditure of the lowest income decile but only 7 per cent of the highest income decile.
The proportion of income spent on the transport, 'miscellaneous' and 'other' categories increases significantly with income. For example, the highest income decile spends 16 per cent of the expenditure on transport compared to 9 per cent for the lowest decile. The highest income decile spends more on transport than the entire expenditure of the lowest income decile.

Table 3	2006 expenditure by category for low-income households		
(£ per week/percentage of total household expenditure)			
	Lowest 10%	Second decile	Third decile
Food & non-alcoholic drink	24.50 16	31.40 16	36.60 13
Alcoholic drinks, tobacco	5.30 3	6.00 3	8.30 3
Clothing & footwear	6.60 4	9.10 5	12.80 5
Housing, fuel & power	32.30 21	35.20 18	42.50 16
Household goods & services	11.20 7	14.70 7	17.60 6
Health	1.80 1	2.80 1	4.40 2
Transport	13.90 9	16.90 8	33.20 12
Communication	5.70 4	6.80 3	8.50 3
Recreation & culture	17.10 11	25.20 13	34.70 13
Education	1.70 1	1.50 1	2.70 1
Restaurants & hotels	10.10 6	13.60 7	17.50 6
Miscellaneous	9.80 6	14.30 7	22.20 8
Other	15.60 10	22.40 11	30.50 11
Total	**155.60 100**	**199.80 100**	**271.40 100**

Source: *National Statistics (2008) 'Family spending: 2007 edition' Palgrave MacMillan, London*

Expenditure on food and drink is very diverse and disaggregating further does not shed much light on expenditure patterns. However, to examine the other six sectors we are studying in depth, we need to go down to the next level of disaggregation. These simple statistics can give only a snap-shot of expenditure; they do not explain why patterns are as they are.

7.1 Energy

Expenditure on energy in percentage terms falls sharply with increased income, and the highest decile devotes only about one third as much percentage-wise of their income to energy as the lowest decile (see Table 9).

7.2 Water

Like energy, expenditure on water is much more significant for the lowest income group, which spends 4.2 per cent of income on water compared to the highest income group, which spends less than 1 per cent (see Table 10). The government has adopted as a sustainability indicator the number of households paying more than three per cent of their disposable income on water supply and sanitation services.

7.3 Financial services

Financial services is, along with housing, perhaps the most complex and diverse of the sectors (see Table 5). Some elements, such as vehicle insurance, are legal requirements (for vehicle owners) and have a high cost. Others, although not legal requirements, are also high cost and not having them could be seen as risky, for example household insurance and pension contributions. Banking services have a very low cost and are voluntary, but could be seen as an essential for social and financial inclusion. Their availability also may provide a key to securing best value in the purchasing of other goods and services.

7.4 Communications

Expenditure on communications as a percentage of total expenditure falls rapidly with increasing income and the highest decile spend only half as much in percentage terms as the lowest decile (see Table 7).

7.5 Transport

Transport expenditure is very much in two parts: public transport and personal transportation (see Table 6). Public transport makes up a much higher proportion of low-income expenditure on transport and, within that, buses are the largest element. For higher income groups, rail fares are more important, probably reflecting commuting. Expenditure on personal transportation as a percentage of total expenditure rises rapidly with increased income, with the percentage spent by the highest decile almost double that of the lowest decile.

7.6 Food & drink

It is not useful to split expenditure on food and drink further than is shown in Table 4. This does show that expenditure on food and drink makes up the highest proportion of total expenditure for the lowest two income groups, accounting for a sixth of total expenditure. Expenditure, as a percentage of total expenditure, falls sharply with increased income and is only half that for the highest income decile (who spend most on transport) as it is for the lowest two deciles.

7.7 Housing and mortgages

This, along with financial services, is the most complex sector to analyse (see Table 8). As might be expected, rent dominates lower income groups' expenditure while mortgage payments dominate higher income groups' payments. The impact of Housing Benefit on the lowest income groups is dramatic and the lowest decile pays only a quarter on average of their gross rent, the rest being met by Housing Benefit.

8. Summary

The seven sectors examined in this report represent the goods and services essential for, at the least, social inclusion and, in most instances, survival in a modern society. For the lowest three income deciles, they represent about 60 per cent of total household expenditure. Because of their essential nature, water, energy, food and communications tend to represent a much higher proportion of expenditure for low income households than they do for high income households. Transport and housing represent an increasing proportion of expenditure for higher income households, reflecting decisions by these households to choose to use their additional income to purchase more expensive houses and cars. For financial services, purchases of insurance increases significantly as a percentage of expenditure, presumably partly because richer households tend to have more or higher value items that require insuring and partly because lower income households may not have enough money to insure all their possessions as fully as they might.

References

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National Consumer Council (1977) ‘Why the poor pay more’, National Consumer Council, London.

National Consumer Council (2004) ‘Paying more, getting less’, National Consumer Council, London. http://www.ncc.org.uk/nccpdf/poldocs/NCC068_poor_pay_more.pdf

Notes

1 In September 2008, it was reported that food prices had risen by 8.3 per cent since January 2008. http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/7597703.stm

2 energywatch analysis shows that between January 2003 and September 2008 the average energy bill for a medium user paying by Standard Credit has risen by 141 per cent.

3 In February 2008, it was reported that water prices would rise on average by 5.8 per cent. http://news.bbc.co.uk/1/hi/business/7264594.stm

4 In April 2008, it was reported that commuters faced an increase of 14 per cent in their rail fares. http://www.telegraph.co.uk/news/uknews/1570755/Commuters-facing-14pc-rail-fares-rise.html

5 http://www.guardian.co.uk/society/2008/aug/29/un.life.expectancy and http://www.who.int/social_determinants/final_report/csdh_finalreport_2008.pdf

6 See: http://www.berr.gov.uk/files/file16495.pdf

7 http://www.ofwat.gov.uk/aptrix/ofwat/publish.nsf/Content/prs_pn1308_openmktcomp

8 Directives are measures passed by the European Parliament that member states are required to incorporate in national law within a specified period of the Directive being ratified, typically about a year.

9 The European Commission states that 'services of general services of general economic interest are services that public authorities consider should be provided in all cases, whether or not there is an incentive for the private sector to do so. It has also stated that EU Member States are free to determine those services which they consider to be in the general interest.’ http://www.oft.gov.uk/shared_oft/business_leaflets/ca98_guidelines/oft421.pdf

10 In the 12 week period to 13 July 2008, Aldi increased its sales by 19.5 per cent and Lidl increased its sales by 14.3 per cent. The Grocer, ‘Discounters bag record market share’ 26 July 2008.

11 This report will focus on water services in England and Wales. Ownership and regulation in Northern Ireland and Scotland are different.

12 http://news.bbc.co.uk/1/hi/business/7404514.stm

13 http://www.jrf.org.uk/knowledge/findings/socialpolicy/2244.asp

14 http://www.statistics.gov.uk/downloads/theme_social/Family_Spending_2006/FamilySpending2007_web.pdf

Table 2 **Characteristics of products and services to be studied**

	Energy	**Water**	**Financial services**	**Communications**	**Public transport**	**Food & drink**	**Housing**
Product variety	Standard product	Standard product	Wide variety	Expanding, especially for mobile phones	Limited	Wide variety	Wide variety
Scope for product differentiation	Little	None	Wide variety	Variety	Little	Wide variety	Wide variety
Is the product an essent	Basic necessity	Basic necessity	Necessary for social inclusion	Necessary for social inclusion	Necessary for social inclusion	Basic necessity	Basic necessity
Can demand be postponed?	No	No	Yes	Some flexibility	No	No	No
Do residential consumers compete with large consumers?	Yes	Yes	Not directly, but probably indirectly	Yes	No	No	No
Pricing mechanism	Market + regulation	Regulated	Market with significant regulatory oversight	Mainly market but some regulated prices	Regulation + market	Market	Part market, part regulated
Market structure	6 national competitors	Regional monopoly	Generally fragmented	4-5 main infrastructure companies but wide range of retail companies	Regional or local monopolies	Range of suppliers but 4 main supermarket chains	Range of suppliers
Specific assistance for poor?	Limited voluntary social tariffs	Limited	None	Limited assistance for landli	Some concessions	None	Yes
Accessibility/pricing issues for rural consumers?	Limited	Limited	Banking	Broadband	Yes	Yes	Limited

Table 4 **Total 2006 household expenditure by main commodity or service**

(£ per week / percentage of total household expenditure)

	Lowest 10%	Second decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile	Highest 10%	All households
Food & non-alcoholic drink	24.50 16	31.40 16	36.60 13	40.10 12	44.60 12	47.40 11	51.90 10	57.80 10	62.70 9	71.90 7	46.90 10
Alcoholic drinks, tobacco	5.30 3	6.00 3	8.30 3	9.20 3	11.60 3	11.70 3	13.60 3	14.90 3	15.30 2	15.20 2	11.10 2
Clothing & Footwear	6.60 4	9.10 5	12.80 5	15.70 5	18.10 5	20.70 5	26.00 5	33.50 6	39.40 6	50.50 5	23.20 5
Housing, fuel & Power	32.30 21	35.20 18	42.50 16	43.30 13	45.40 12	49.90 11	48.90 10	52.60 9	51.10 7	74.30 8	47.60 10
H'hold goods & services	11.20 7	14.70 7	17.60 6	24.80 7	23.90 6	29.50 7	33.60 7	36.90 6	46.10 6	64.40 7	30.30 7
Health	1.80 1	2.80 1	4.40 2	4.40 1	5.60 1	5.50 1	5.00 1	6.90 1	6.40 1	15.90 2	5.90 1
Transport	13.90 9	16.90 8	33.20 12	40.50 12	46.60 12	55.40 13	65.40 13	84.70 14	107.50 15	156.20 16	62.00 14
Communication	5.70 4	6.80 3	8.50 3	9.40 3	12.10 3	12.00 3	13.80 3	14.80 2	16.70 2	17.80 2	11.70 3
Recreation & Culture	17.10 11	25.20 13	34.70 13	39.40 12	51.50 14	58.20 13	67.40 13	83.70 14	92.10 13	115.40 12	58.50 13
Education	1.70 1	1.50 1	2.70 1	2.10 1	2.40 1	2.80 1	3.30 1	8.20 1	15.00 2	32.60 3	7.20 2
Restaurants & Hotels	10.10 6	13.60 7	17.50 6	23.40 7	29.00 8	36.30 8	44.80 9	53.30 9	66.00 9	84.80 9	37.90 8
Miscellaneous	9.80 6	14.30 7	22.20 8	26.00 8	28.80 8	35.80 8	44.10 9	48.00 8	57.40 8	73.80 8	36.00 8
Other	15.60 10	22.40 11	30.50 11	54.60 16	60.60 16	72.90 17	89.00 18	99.00 17	139.70 20	191.60 20	77.60 17
Total	**155.60 100**	**199.80 100**	**271.40 100**	**333.00 100**	**380.20 100**	**438.10 100**	**506.9 100**	**594.10 100**	**715.50 100**	**964.40 100**	**455.90 100**

Source: National Statistics (2008) 'Family spending: 2007 edition' Palgrave MacMillan, London

Table 5 2006 household expenditure on financial services

(£ per week / percentage of total household expenditure)

	Lowest 10%	Second decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile	Highest 10%	All households
Household Insurance	1.90	2.80	3.60	4.00	4.90	5.40	6.10	6.10	7.50	8.90	5.10
Vehicle Insurance	2.10	3.00	4.60	5.80	7.20	8.10	10.10	11.40	12.20	15.20	8.00
Life assurance & pension	1.00	1.70	3.20	5.30	10.20	14.80	21.10	28.70	54.40	76.80	21.70
Other Insurance	0.50	0.70	1.10	2.20	2.30	3.00	3.30	4.00	6.40	8.40	3.30
Total Insurance	**5.50**	**8.20**	**12.50**	**17.30**	**24.60**	**31.30**	**40.60**	**50.20**	**80.50**	**109.30**	**38.10**
Bank, credit Card etc charge	0.30	0.10	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.70	0.40
Savings & investments	0.20	0.70	4.40	3.80	1.90	4.10	5.20	6.40	13.70	22.50	6.30
Paying off loan to clear debt	0.60	0.40	0.90	1.70	2.40	3.00	3.30	4.30	5.90	3.50	2.60
Windfall from Gambling etc	1.00	0.70	2.80	1.70	1.70	2.40	2.20	5.50	2.00	1.50	2.20
Total	**7.60 5**	**10.10 5**	**20.90 8**	**24.80 7**	**30.90 8**	**40.90 9**	**51.60 10**	**66.80 11**	**102.60 14**	**137.50 14**	**49.50 11**

Source: National Statistics (2008) ‘Family spending: 2007 edition’ Palgrave MacMillan, London

Notes

1. Other insurance includes medical insurance premiums, non-package holiday travel insurance and other insurance including friendly societies.
2. Vehicle insurance is also included in the financial services table.

Table 6 2006 household expenditure on transport

(£ per week / percentage of total household expenditure)

	Lowest 10%	Second decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile	Highest 10%	All households
Purchase of Vehicles	4.60	4.00	12.00	12.30	14.10	19.30	21.60	32.80	44.90	68.70	23.40
Operation of Personal Transport	6.40	9.10	15.60	18.80	25.00	28.30	33.60	40.80	47.60	61.10	28.60
Vehicle Insurance	2.10	3.00	4.60	5.80	7.20	8.10	10.10	11.40	12.20	15.20	8.00
Total personal Transport	**13.10 8**	**16.10 8**	**32.20 12**	**36.90 11**	**46.30 12**	**55.70 13**	**65.30 13**	**85.00 14**	**104.70 15**	**145.00 15**	**60.00 13**
Rail & tube Fares	0.60	0.30	0.70	0.60	0.70	1.30	2.30	2.80	4.00	8.20	2.20
Bus & coach Fares	1.00	1.00	1.20	0.80	1.50	1.80	1.90	1.30	1.40	1.20	1.30
Total public Transport	**1.70 1**	**1.50 1**	**2.30 1**	**1.50 -**	**2.60 1**	**3.90 1**	**5.00 1**	**6.00 1**	**7.20 1**	**13.70 1**	**4.50 1**
Other travel & Transport	**1.30**	**2.30**	**3.20**	**7.80**	**4.90**	**4.00**	**5.10**	**5.10**	**7.70**	**13.60**	**5.50**
Total Transport	**16.10 10**	**19.90 10**	**37.70 14**	**46.20 14**	**53.80 14**	**63.60 15**	**75.40 15**	**96.10 16**	**119.60 17**	**162.30 17**	**70.00 15**

Source: National Statistics (2008) ‘Family spending: 2007 edition’ Palgrave MacMillan, London

Notes

1. Total public transport includes combined fares.
2. Vehicle insurance is also included in the financial services table.

Table 7 Household expenditure on communications

(£ per week / percentage of total household expenditure)

	Lowest 10%	Second Decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile	Highest 10%	All households
Postal services	0.20	0.40	0.50	0.40	0.50	0.30	0.60	0.50	0.70	0.80	0.50
Telephone equipment	0.10	0.40	0.40	0.60	0.50	0.70	0.70	1.50	1.00	1.30	0.70
Telephone Services	5.40	6.10	7.50	8.40	11.00	11.00	12.50	12.70	15.00	15.70	10.50
TV, video, cable Internet	3.40	3.60	4.20	4.80	5.70	6.20	6.80	7.10	7.90	8.70	5.80
Total	**9.10 6**	**10.40 5**	**12.70 5**	**14.20 4**	**17.80 5**	**18.20 4**	**20.60 4**	**21.90 4**	**24.60 3**	**26.50 3**	**17.50 4**

Source: National Statistics (2008) 'Family spending: 2007 edition' Palgrave MacMillan, London

Table 8 Household expenditure on housing and mortgages

(£ per week / percentage of total household expenditure)

	Lowest 10%	Second Decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile	Highest 10%	All households
Gross rent	59.90	47.10	32.80	26.40	21.20	21.50	18.00	17.70	12.60	21.00	27.90
Net rent	14.70	14.50	16.80	16.90	17.30	19.80	16.40	17.10	12.40	20.60	11.20
Mortgage intere council tax	11.20	13.60	20.40	30.90	41.30	54.00	63.70	72.50	94.40	117.80	52.00
Purchase of Dwellings	5.00	42.60	42.60	23.80	25.40	63.00	46.80	62.50	73.00	132.50	51.70
Maintenance & Repair	1.60	2.60	5.50	5.50	6.20	7.40	9.20	9.50	11.80	20.50	8.00
Total gross Housing	**77.70**	**105.9**	**101.3**	**86.60**	**94.10**	**145.90**	**137.70**	**162.20**	**191.80**	**290.80**	**139.60**
Total net Housing	**32.50 21**	**63.30 32**	**85.30 31**	**67.10 20**	**90.20 24**	**144.20 33**	**136.10 27**	**161.60 27**	**191.60 27**	**290.40 30**	**122.90 27**

Source: National Statistics (2008) ‘Family spending: 2007 edition’ Palgrave MacMillan, London

Table 9 2006 household expenditure on energy

(£ per week / percentage of total household expenditure)

	Lowest 10%	Second decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile	Highest 10%	All households
Electricity	4.90	5.80	6.60	6.80	7.30	7.70	7.80	8.70	9.30	10.60	7.50
Gas	4.50	5.60	6.30	6.40	7.00	7.20	7.50	7.90	9.10	10.20	7.20
Other fuels	0.80	1.00	1.10	0.80	1.10	1.00	1.10	1.50	1.30	2.20	1.20
Total	**10.20 7**	**12.50 6**	**14.00 5**	**14.00 4**	**15.40 4**	**15.90 4**	**16.40 3**	**18.00 3**	**19.70 3**	**22.90 2**	**15.90 3**

Source: National Statistics (2008) ‘Family spending: 2007 edition’ Palgrave MacMillan, London

Table 10 Expenditure on water

(£ per week / percentage of total household expenditure)

	Lowest 10%	Second decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile	Highest 10%	All households
Water	**5.80 4**	**5.70 3**	**6.20 2**	**6.90 2**	**6.50 2**	**6.80 2**	**7.00 1**	**7.70 1**	**7.20 1**	**9.60 1**	**6.90 2**

Source: National Statistics (2008) ‘Family spending: 2007 edition’ Palgrave MacMillan, London

Note: Includes also ‘miscellaneous services relating to the dwelling’, e.g. refuse collection and skip hire.