

# Poor Choices:

**The limits of competition in the provision  
of essential services to low-income  
households**

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# Why?

- Research triggered by problems in energy markets that Jan 2008 price rises seemed to illustrate and the growing price differential between PPM/SC energy prices and online DD
- Trend to privatise and transform monopoly or rigid markets to dynamic markets

# Research questions

- Do energy markets serve low-income consumers well?
- How well do the markets for other essential purchases serve low-income consumers?
- What support mechanisms exist to help low-income households for other essentials?
- Are there lessons for energy from other purchases?

# The sectors

- Housing: Christine Whitehead (Cambridge)
- Financial services: Robin Simpson (CI)
- Communications: Linda Lennard & Mike George
- Food & drink: Tim Lobstein
- Public transport: Jane Lethbridge (PSIRU)
- Water: Emanuele Lobina (PSIRU)
- Energy: Steve Thomas (PSIRU)

# Housing (1)

- A market but little in common with conventional markets and high scope for market failure, eg, limited supply and slow response to demand
- But strong connection to energy and fuel poverty and also to water and financial services
- ‘Cats cradle’ of support mechanisms – Housing Benefit – that cover price. Lowest income decile pays under 30% of gross rent
- Other support through subsidised social housing (previously councils, now housing associations), rent controls, Income Support for Mortgage Interest

# Housing (2)

- Homelessness (not just rough sleepers) peaked at 200,000 in 2003. Now 100,000. How far is this changes in acceptance procedures?
- Decent homes programme launched 2003 aims to ensure all social housing is 'decent' by 2010
- Many non-decent homes fail because of thermal comfort criterion. 20% of homes have SAP<38 but only 7% of social housing
- In 2003, 6.7m homes non-decent, by 2006, down to 5.9m (4.8m in private sector) but proportionately, public sector no better than private sector

# Telecoms (1)

- Technologically dynamic sector, rapid demand growth and increasingly important role
- Includes landlines, mobiles, broadband, TV
- BT still dominant for landlines but continued restructuring and new entry
- ‘Bundling’ of services and tariffs for times of day, network, etc make price comparisons difficult
- Mis-selling a problem and PAYG mobiles parallel PPMs in pricing. ‘Sting’ of not being able to make calls not the same as having no energy

# Telecoms (2)

- No price regulation and BT not required to unbundle network
- USO placed with BT to provide schemes for consumers who have difficulty in affording landline
- Light User Scheme (LUS, 1m customers) and In Contact (IC, 55,000) schemes for low users. Not means tested
- BT Basic to replace these. Means-tested but administered by BT
- Disconnection rate high. 1 million temporary disconnections pa, 0.68m permanent disconnections



# Financial services (1)

- Diverse sector but banking becoming increasingly vital for households. Main problem for banking accessibility not cost
- A full service bank account vital to get best deals for many services/products, especially energy
- But insurance, mortgages, credit dependent on factors where low-income at a disadvantage
- Heavy requirement on household to get best deal through price comparison, switching etc
- Complex reasons why low-income households do not always use financial services that appear useful

# Financial services (2)

- Social fund introduced 1988 offered interest free loans to low-income households but replaced grants in some cases. Loan budget about £560m
- Main initiative Financial Inclusion Taskforce (FITF) to provide access to: banking, affordable credit, free face-to-face money advice
- Results: basic bank accounts, 400 financial advisers, Growth Fund loans to Third Sector (Credit Unions, CDFI)
- Strong initiatives on Treating Customers Fairly

# Food & drink (1)

- Nearest to a 'classical' model of a market
- But supermarket structure highly concentrated - big 4 have 70-75% of food market. Concern by Competition Commission
- Issues of competition outside large conurbations, need to buy in bulk for cheapness
- Like financial services, heavy onus on households to make good choices, but on nutrition as well as value
- Nutrition insecurity: households not meeting recommended dietary guidelines for nutritional health with serious consequences for health

# Food & drink (2)

- ‘Bad’ foods are cheaper and cost is falling.  
Tempting to ‘fill’ stomachs
- Little direct support, eg, free school meals
- Studies suggest single person needs to spend £30 per week on food to achieve food security
- Especially difficult to achieve for state-only pensioners or young job-seekers
- Food Standards Agency and others operate mainly through information and exhortation
- Like FS, temptation to be judgemental

# Energy (1)

- Highly concentrated market (big 6) – hard to see how to avoid getting more concentrated
- Regional markets dominated by incumbents and British Gas still dominant for gas
- Heavy (impossible?) burden on households to get best deal
- But market systematically and heavily biased against low-income households through very high PPM and SC tariffs
- Fuel poverty could affect a quarter of households by end 2008. Limitations of definition appearing

# Energy (2)

- Fuel poverty immensely complex
- Three issues: housing quality, energy prices and household income
- If PPM and SC tariffs were no higher than lowest tariffs, many households taken out of fuel poverty
- Social tariffs seem unlikely to be effective unless strongly backed and enforced
- Winter fuel payments expensive and ineffective
- Improving housing a ‘win-win’ but hard to organise
- Efficiency schemes, eg, CERT, WarmFront inadequately funded and not targeted at fuel poor

# Do the poor pay more? Are markets effective?

- Is there a competitive field of companies and are barriers to entry low? Concentration for energy, food, transport & telecoms. High barriers for energy
- Alternatives to mainstream market provision. Important for FS, housing but not other sectors
- How does switching work? Problematic for energy and housing
- How easy is it to compare suppliers? Difficult for telecoms (complexity of bundles) and energy (volatile prices)

# Regulation

- Sector regulators introduced in all sectors with duties to protect consumers, especially low-income
- Are they doing a good job
- Has the government prejudice that ‘light regulation’ is ‘better regulation’ made regulators unwilling to use their powers?
- Political independence, accountability and representativeness



# Lessons for energy

1. The concentrated market structure. Is it too late for energy?
2. The social issues raised by pre-payment meters and price differentials? Covering up and exacerbating a serious social problem
3. The role of the regulator. Should the regulator be more proactive
4. The division of responsibilities between regulator and government. Is government passing its duty to set energy policy on to the regulator

# Lessons for energy

5. Non-mainstream provision. Can this provide a way to escape oligopoly?
6. Dealing with sector poverty? Sector poverty policies must be led by energy efficiency measures
7. Market solutions. Can the market provide much of the needed energy efficiency measures?