The Cost of Living Crisis
What it costs to live has been at the forefront of trade unions’ struggle since their inception and it always will be whilst labour is regarded as an exploitable cost and welfare an extravagant indulgence. The fight for decent pay in our respective industries is augmented by our collective commitment to affordable housing, health, transport, utilities, further and higher education for all.

The cost of transport is one measure of where the trade union movement is in our struggle. The price passengers, taxpayers and workers pay for transport in the UK is a national scandal, the direct result of decades of privatisation and deregulation by discredited governments that have actively participated in the transfer of power from the ballot box to the boardroom.

Increases in rail and bus fares have been well above inflation for most of the last 20 years, taking public transport out of the reach of hundreds of thousands more people every year. At the same time billions of pounds in fares revenue and public subsidy is taken out of the rail and bus industries in dividends by the global companies that monopolise the provision of these essential public services. When that profit motive is removed costs inevitably go down, as we have seen on the East Coast Main Line with the £1 billion returned to the taxpayer over the last five years being achieved on the back of fare cuts. No wonder the Tories are determined to privatise it before May 2015.

As with transport, so with all public services, utilities, health, housing and education, Labour must draw a policy line in the sand over which the free market cannot step. Public ownership, rent controls, a major council house building programme, restoring support grants to students and scrapping tuition fees would remove privatisation and competition from the provision of our basic rights to housing and affordable public services funded by fair taxation and not fares or charges.

This booklet provides TUCG members and activists with the facts and figures to argue for the policies that will make the 21st century worth living in for the vast majority and not just the 1%.

Mick Cash
RMT General Secretary
his TUCG booklet forms the second instalment of a two-part series looking at the scale and extent of the “cost of living crisis”. In the first booklet we looked at the factors that have been contributing to the great squeeze on the real incomes of the majority of earners, particularly after housing costs have been factored in. Falling real earnings, attacks on benefits and the cost of renting against the backdrop of the increasing unaffordability of home ownership have made for a dramatic collapse in the real value of our incomes.

This part looks at the pressures of the rising costs of other forms of household expenditure in a context of rising prices for essential goods as measured by the new “Real Britain” index, which has been commissioned by the TUCG along with PCS and Unite and is being produced by the New Economics Foundation (www.realbritainindex.org). This booklet looks at those costs that are not exactly discretionary purchases – travel, utility bills, childcare and the like – and have been clawing more and more from our falling real incomes.

Taken together, these TUCG booklets put forward a series of radical policy options which a government could implement were it to make action on the cost of living for working people its top priority, rather than assume that the best we can do is make tinkering adjustments within the limits of an austerity agenda. Rather, these options point to the need to tackle the structural and systemic pressures responsible for the rising cost of living, and for a radical transformation of the economy in order to put the needs of working people before the interest of private profit. There are also some links to a number of campaigning groups doing valuable work in organising in our communities to highlight the pressures people are facing.

The themes raised in this TUCG publication and the earlier ‘Great Pay Robbery’ are to be developed as the basis of a book, The Cost of Living Crisis, to be published by Comerford and Miller under their Radical Read imprint in February 2015. If you are interested in owning one of 250 signed and numbered pre-publication copies at the discounted price of £8.95 (RRP £9.95) go to www.radicalread.co.uk
Introduction

The cost of living crisis has forced itself on to the political agenda because it is an inescapable part of lived reality for millions of households across Britain.

As we explored in the accompanying booklet *The Great Pay Robbery*, wages had already been stagnating in the decade prior to the financial crash of 2008, and indeed the share of GDP going to wages had fallen sharply throughout the 1980s. It is no coincidence that such an effect on the incomes of ordinary people occurred during a period which also saw a sustained attack on trade unions and collective bargaining rights.

**Incomes hammered by the crisis**

But austerity economics in the wake of the financial crash has had a particularly sharp effect on real incomes. Economic forecasters suggest that it is likely to take until 2020 before our pay recovers its value prior to the crash, which wiped 7.2% from Gross Domestic Product (GDP)\(^1\) and saw unemployment reach 2.7 million\(^2\) at the depth of the resulting recession. The modest levels of recovery we have belatedly started to experience are widely thought to be vulnerable to the bursting of a house-price bubble recklessly inflated via policies such as “Help to Buy”.

The new jobs which Cameron claims are being created in the economy are frequently low-paid and part-time, with an epidemic of zero-hours contracts and bogus self-employment part of an increasingly casualised, exploitative labour market. Meanwhile the austerity-driven cuts to benefits and the punitive culture of sanctions, which have seen people driven to food banks, destitution and even suicide, are set to continue throughout most of the next parliament whichever party is elected to government.
Housing emergency

As we saw in The Great Pay Robbery, the pressure on incomes has been made all the more intense after housing costs are taken into consideration. Levels of house-building are running at less than half the 250,000 to 300,000 that experts calculate are needed to stand still, while the number of “affordable” homes (properties let at 80% of the market rent, in reality way beyond what is genuinely affordable for many) fell by as much as 26% last year to an eight-year low. The escalation in house prices has made home ownership unaffordable to a substantial section of society, with generations now trapped into a private rented sector plagued by insecurity of tenure, overcrowding and poor conditions. Already housing charity Shelter reports that the number of people struggling to pay their rent or mortgage each month has increased by 44% over the past year to 7.8 million, while almost one in three adults (around 15 million people) say housing costs are causing stress and depression in their family.

But if the pressure is telling today, the crisis in housing is only likely to intensify. Analysts forecast that house prices could rocket up by 35% by 2020 and rents are projected to soar by 39% over the same period. Meanwhile many homeowners who have stretched their finances to take out a mortgage in conditions where interest rates are low could easily find themselves over-exposed as rates are likely to rise. Using OBR figures, the Resolution Foundation has calculated that an increase in interest rates of 5% by 2018 would put 2 million households at risk of having their homes repossessed, with half of these being families with children.

Outgoings up

In this booklet we will see that the squeeze on household incomes has been compounded by the rising costs of many essential everyday items of expenditure – childcare fees, transport costs, energy bills, phone bills and so on. And where a significant part of the population find they have been unable to make ends meet from month to month, a new market has emerged for exploitation by predatory “payday loan” companies, charging extravagant rates of interest and trapping people in worsening spirals of rolled-over debts. The cost of meeting loan repayments or credit card charges is itself a key part of the cost of living for millions of households.

Food bank Britain

As financial hardship leaves families across the country unable even to afford absolute basics like food, the Trussell Trust charity has reported a 163% increase in use of its food banks in the last 12 months alone, with over 900,000 adults and children receiving three-day emergency food aid. Given the extent of shame that exists over accepting charitable help, reports of people who manage to feed themselves only by cutting out other essentials like heating costs or resorting to payday loans and the numbers in areas where no food bank currently operates, the real extent of food poverty is likely to be larger still. That so many people are at risk of going hungry in the sixth richest country in the world, while the top 1% continue to see their incomes race away from the rest at a record pace, is an outrage.

How many other households are vulnerable to a single financial shock, living in fear of being made redundant, becoming ill and unable to work, having an accident or even facing everyday “one offs” such as a big vet’s bill or finding their car needs serious repairs? The gap between just about getting by and sinking into poverty is narrow.
Profiting from the public

But why has the cost of so many of the basic goods and services we need in our daily lives been rising so steeply? What unites much of the material considered in this booklet is the effect of privatising and/or slashing back public services in favour of private sector providers whose first priority is to deliver dividends for their shareholders rather than prioritise value and quality for customers. Far from emboldening risk-taking “entrepreneurs” to innovate, private companies have often played a parasitical role, sucking up public subsidy, capitalising on state-led research and development, or exploiting elements of a monopoly to make vast profits off our backs. A combination of the inherent inefficiencies of fragmenting services to allow for competition, weak regulators intimidated by powerful corporate interests and a political class willing to reward failure has created dysfunctional markets run to make private profits where there once existed public services run for the public good.

The austerity-driven politics of slashing spending on public services is not motivated by economic inevitability, but political choice. The more services are no longer paid for via our taxes, the more markets will exist to sell them as private commodities to those who can afford to pay. Rather than ensuring that our resources are shared fairly so that a basic quality of life is guaranteed for all, the market-driven world is one where sick, disabled, elderly, or unemployed people who can’t afford to pay the price are left to rot, just so long as shareholders can profit from running services for those who can.

On top of the war on welfare benefits, public spending has been slashed since 2010, with severe reductions in local council budgets meaning services have been cut to the bone or abandoned altogether: social care for elderly and disabled people, SureStart centres, libraries, breakfast and after-school clubs, leisure centres... the list goes on and on. But according to the Institute of Fiscal Studies, the coalition will only have implemented 40% of the cuts it has announced, which will run at least into 2019. With Labour already pledged to stick within George Osborne’s plans as far as 2017, it is clear that the overall thrust of austerity will continue regardless of the outcome of the general election.
Basic contradictions

So while it is welcome that Ed Miliband talks of addressing the cost of living crisis as a priority, by committing to a continuation of austerity at the same time he undermines his own case. How does it help workers in the public sector struggling to cope with the cost of living to deliver a real terms cut to their pay? How does it help a young couple struggling to meet the costs of bringing up a family to find the value of their child benefit is to fall? You don’t have to be a genius to spot a fundamental problem here.

At the same time, a government that was genuinely committed to helping to lift the burden of the cost of living could win broad popular support. Labour enjoyed a noticeable bounce in the polls following the announcement of an energy price freeze, with voters distinctly unimpressed by the blackmail from fat cat energy bosses threatening to turn off the lights. In fact, a YouGov survey showed voters were prepared to go much further, with 68% saying the energy companies should be in the public sector and just 21% believing they should remain privately owned. Similarly, Miliband’s halfway-house proposal to let the public sector compete with private companies when franchises expire falls short of reintegrating the whole rail system under public ownership, despite the overwhelming public support for this measure shown consistently in polls.

This booklet looks at the kind of policies that a government would pursue if it rejected the politics of austerity demanded by big corporate and financial interests, and instead made tackling the cost of living crisis its over-riding priority. It means having conviction in the value of public services, and rejecting the failed model of privatised services run for the benefit of a tiny minority.

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2 ONS figures, cited http://www.bbc.co.uk/news/10604117
4 https://england.shelter.org.uk/news/january_2013/housing_costs_cause_stress_and_depression_for_millions

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The Cost of Borrowing

The economic growth of the 1990s and 2000s was built on the expansion of financial services fuelled in part by unsustainable levels of consumer credit. Notoriously, the US "sub-prime debt" market involved banks massively expanding irresponsible mortgage lending to people who would never be in a position to repay, while concealing this basic economic fact with ever more complex and opaque forms of financial engineering. The years of growth had been paid for on the never-never, and sure enough the day of reckoning came with a vengeance when the global financial crisis hit in 2008.

Maxed out

On the eve of the crash, in the first quarter of 2008, Britain’s national household debt ratio stood at 170%, a historic high. Economic growth was built on consumer spending, with people “maxing out” their credit cards and banks prepared to lend on mortgages with worryingly high loan-to-value ratios. As the deep recession hit, the household debt ratio started to fall, with worried families trying to limit their exposure to debt by going without holidays or home improvements and prioritising just paying the bills. Before the recovery began, the household debt ratio was 138%.

Debt-fuelled growth

However, the return to (very modest) growth is built a return to business-as-usual, with the debt ratio set to have hit 160% of income by 2018, partly as a result of policies like Help to Buy producing a housing bubble and underwriting additional mortgage debt. However, in absolute terms household debt has already surpassed its 2008 peak, with the total value of UK consumers’ debts amounting to a colossal £1,429,624,000,000 (nearly £1.43 trillion), an average of £28,489 for every adult in the UK. As the Resolution Foundation says: “Today’s...
nascent recovery is flying on the single engine of household spending power... Business investment has remained stagnant – something that was not the case at this point after the 1980s or 1990s recessions\(^5\).

For a recovery to be sustainable, it cannot be driven by spending alone. Not only has business investment remained largely stagnant, but people have also been forced to eat into their savings – where they exist. Since the second quarter of 2009, the UK savings ratio has now fallen from 8.6 per cent to 5.4 per cent.... A falling savings ratio cannot continue indefinitely. Either business investment rebounds, household incomes quickly recover, or else the depletion of savings – and with it the recovery – will run out of road\(^6\).

At the same time, the impact of the crisis on the distribution of wealth has been markedly unequal:

Among mortgagors, net worth – savings, shares and property wealth – fell across the bottom 80 per cent of people from 2005 to 2013 but rose or the top 20 per cent. In the bottom half of the distribution, these falls have been substantial, wiping upwards of £30,000 of the average net worth of households across much of the bottom half.

Half (51 per cent) of the 7.6 million families on low to middle incomes have no savings at all. Two-thirds (67 per cent) have less than a month’s income in savings, leaving them vulnerable to small shocks. And many struggle to save or the longer term. Nearly three-quarters (71 per cent) of those on low to middle incomes have no pension or a frozen pension. Combined with the trends in home-ownership... many have in effect few or no assets or retirement\(^7\).

The fact that the Bank of England has kept interest rates so low is undoubtedly one factor in containing mortgage repayments to the extent that the mass repossession of private homes hasn’t been seen on the scale we might have expected on the basis of previous recessions. But analysts have calculated that on conservative estimates an

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### Household spending and business investment after recessions

(Source: Resolution Foundation, The State of Living Standards)
extra half a million – and perhaps as many as two million – people will find themselves in “debt peril”, where an increase in interest rates will see over half their disposable income going to debt repayments:

On the most adverse, but still plausible, scenario looked at in the Resolution Foundation analysis the number of households in Britain who spend at least half their disposable income on repaying debts (and are therefore deemed to be in debt peril) could more than triple – from 600,000 in 2011 to 2 million by 2018. This could happen if interest rates were to rise to 5 per cent – two points higher than the current market expectation but still around typical long-term levels – and if growth in household income was weak and uneven (lagging behind GDP growth and more skewed towards higher than lower income households).

Even under a more optimistic scenario, in which interest rates do not rise above 3 per cent by 2018 and in which household incomes grow more strongly than the OBR has projected and are distributed relatively evenly across high to low income households, the number of families in debt peril would almost double – to 1.1 million.

Struggling to keep afloat

With poverty already a reality for many families across the UK, millions more are only just keeping their heads above water. The Money Advice Service reckons that 8.8 million people (18% of the UK adult population) are “over-indebted” in the UK, by which they mean having fallen at least three months behind on their bills over the last six months or having said that they feel their debts are a heavy burden. In cities such as Hull, Manchester and Liverpool, more than 40% of the adult population have been struggling with debts. “Over-indebted” households certainly do not fall into the media stereotype of feckless scroungers – 58% are in work, and 48% own their own homes. Women are said to represent 62% of those over-indebted, partly as a result of the gender pay gap and the greater proportion of woman who are single parents. Debt-advice charity StepChange argue that, if anything, this understates the extent of the problem, claiming

15 million people [in Britain] are falling behind on bills and using credit to pay for essential costs, including almost 6 million people using credit to make it through until payday, and almost 3 million using credit to keep up with existing credit commitments.

With real incomes having been squeezed, while the price of essential spending items has been increased, the lack of savings to fall back on means millions of people are finding that their personal finances are becoming increasingly exposed. A study of 18-64 year olds by Legal and General found that the average working-age family is just eleven days from the breadline, at which point they would need the help of family, friends or welfare benefits to get by. Already families live in fear of major one-off costs like car repairs or vet’s bills, let alone the prospect of losing their job.

Payday loans

Many people have been forced to turn to the payday loan industry – designed to provide
easy-access unsecured lending to those with pressing needs for a source of short-term finance, i.e. to tide you over for the rest of the month until your next payday. The sector has grown rapidly over recent years, with companies like Wonga, QuickQuid and The Money Shop becoming familiar household names. The market was thought to be worth £900m in 2008-9 but by 2011-2 was thought to be by the Office of Fair Trading (OFT) to be worth up to £2bn\(^\text{15}\), and had reportedly reached £4.8bn in 2014\(^\text{16}\).

This growth was fuelled by increasingly lavish spending advertising campaigns. Ofcom reported a 64% year-on-year increase in payday loans advertising since 2008:

> In 2008 there were 12 million “impacts” (the total number of times an advert is seen by viewers) among adults for payday loans. By 2012 this figure had risen to 7.5 billion – an average of 152 payday loan adverts per viewer on TV last year. Children aged 4-15 saw 3 million payday loan TV adverts in 2008... By 2012 596 million were seen by 4-15 year olds meaning the average child [in this age group] saw 70 payday loan adverts last year\(^\text{17}\).

Little wonder that Martin Lewis (of the Moneysavingexpert website) told a committee of MPs that 14% of parents of under-10s responding to online questionnaire when telling their child they couldn’t have a particular toy “have had a payday loan quoted to borrow the money from”, while 30% of children under 10 are said to be “joking about these slogans, and laughing and repeating the slogans of payday lenders”\(^\text{18}\). Lewis warned MPs: “We are in danger of grooming a new generation towards this type of borrowing... If you think we have got problems now, you wait until 10 years’ time”\(^\text{19}\).

**Normalising debt**

It is not just the volume of adverts but their deliberately light-hearted and trivialising messages that have been serving to “normalise” the use of often inappropriate and high-cost forms of personal lending. Ads using cartoon characters emphasise how “quick and convenient” it is to take out a payday loan but rarely warn of the potential cost of failing
to meet repayment deadlines or point people to independent debt advisors. Several judgements of the Advertising Standards Authority have found against payday loan advertisers such as the Cash Lady adverts featuring Kerry Katona, who appeared to suggest that a payday loan was preferable to borrowing from a high street bank.

Given that a standard credit card will allow you to borrow at 10-20% APR compared to 4,000-5,000% APR for many payday loans, this is misleading to say the least. Of course, if the debt is paid off over the intended duration (of up to a month) the annual percentage rate doesn’t reflect the cost over the term of the loan. But since the loans have been not infrequently “rolled-over” from month to month, these extravagant rates are indeed leading people into spiralling debt problems. Indeed the OFT found that around 50% of revenues generated from payday loans come from customers who roll-over their initial debt rather than than meet the original repayment terms\textsuperscript{20}. In other words, the expectation that borrowers would end up paying usurious rates of interest has been built into the business model.

**Bombarding the vulnerable**

But perhaps worse than the volume of general advertising is the way that payday lenders regularly bombard people with existing debts with further unsolicited texts, emails and calls promoting the ease and availability of further short-term loans. Debt advice charity StepChange deals with clients who are often “at their lowest ebb” and “massively financially vulnerable”. A third of its clients (who have average unsecured debts of around £16,000) have received such messages, with those who have been targeted receiving an average of 10 calls per week and some receiving dozens of calls. The legal loan sharks are targeting people in a vulnerable position, seeking to exploit their anxiety. Two StepChange clients recall their experience of the nuisance calls:

> “When you’re as desperate as I was, it’s strangely comforting to know that there was money available no questions asked. The reality of course is that you’re digging yourself deeper and deeper into a hole, and these companies know that.”

> “It started off slowly at maybe three or four calls a day but by the end of the week we’re talking 40, 50 calls a day...even text messages, it was constant... I say ‘I don’t want any more debt’ and they’ll still try and they’ll ring up and offer me all sorts. No matter how many times I say ‘no I’m not interested’ they’ll just keep on ringing.” \textsuperscript{21}

The implication that loans are available “no questions asked” is also a clear breach of the lenders’ duty to act responsibly, by checking to ensure the client is not burdening themselves with debts beyond their means. As Mike O’Connor, the charity’s chief executive, commented,

> For those in financial difficulty, the offer of an easy, no-questions asked loan can seem like a financial lifeline. The reality is that it can be a financial noose around the neck of vulnerable people and their families\textsuperscript{22}.

If you’re struggling to pay back existing loans, the last thing you need is to be
bombarded by encouragements to take out further loans and spiral even deeper into debt.

**Spiralling debt**

However, it’s not just in soliciting for new business that the actions of the lenders amount to harassment and intimidation. It applies all the more so with respect to the demands to repay existing debts. Academics from Brighton University found that “irresponsible lending and intimidatory collection tactics” have “left thousands of people trapped in a spiral of debt and at risk of depression and even suicide”\(^{23}\). StepChange reports that 74% of its clients said worry over debt was causing them to lose sleep and 43% reported that it was affecting their concentration at work\(^{24}\). The crisis and the austerity that has followed in its wake has pushed working people close to, and tragically sometimes even over, the edge.

One such tragic, though sadly not exceptional, case widely reported in the media was that of Ian Jordan, a 60 year old grandfather from Southampton, who committed suicide by overdosing on painkillers, having fallen into £20,000 debt to a number of payday loan firms after having his disability benefits cut and being out of work. Having taken out one payday loan in order to pay household bills, he reportedly began to find his debts spiralling out of control. His phone reportedly received over a thousand text messages in the wake of his death including continued demands for payment, with the grieving family also being hassled to repay. One lender is believed to have refused to accept a copy of the death certificate. His daughter Samantha told the *Daily Mail*:

> Even after I told these companies about Dad’s death, his phone was still receiving texts and calls demanding repayments — or offering him new loans. Then they started sending texts to my phone, offering me loans, too. At one point I had Dad’s phone and mine bleeping and vibrating every five minutes with messages from these companies. It was enough to drive anyone mad.\(^{25}\)

The Brighton University report found that such behaviour was endemic across the debt recovery industry, including but not restricted to the collection of payday loan debts:

> ...a considerable majority of the over-indebted find themselves party to distressing and persistent collection tactics that frequently constituted abuse. Several of the key OFT debt collection guidelines concerning the ways in which debt collection...
employees interact with clients were ignored during their daily work.

The way in which debt collection was carried out was variously and routinely described as ‘mental warfare’, ‘intimidating’ and ‘horrific’. It was suggested by more than one collector that there was an expectation that collectors would threaten clients in order to secure repayment.

Clients described being bullied, patronised and harassed and that nothing that they could say or do would alter these practices of brutality. Even when clients had organised an accepted payment plan with the institution that they owed money to, they were frequently contacted by collectors seeking to increase repayments.

Fake legal threats

One notorious example of the depths to which some of these lenders are prepared to stoop was the Financial Conduct Authority’s finding that Wonga had to repay £2.6 million for inventing fake firms of solicitors in order to send out intimidating ‘legal’ letters to customers, sometimes even adding extra charges to the client for the privilege of being issued with the bogus letters. MPs called for police to investigate, since the practice could have potentially broken the law on multiple grounds, from fraud to impersonating a solicitor, even blackmail. But though the embarrassing episode caused damage to Wonga’s “fun” PR image, it seems to have got off relatively lightly with a fine and a slap on the wrist.

The impact for those on the receiving end of such tactics can be brutal. As the Brighton University researchers found:

debt clients frequently felt humiliated, disconnected and entrapped and that the processes of debt collection outlined above had a clear impact on people’s mental health. The harassment and the feeling of being uncontrollably entrapped in these practices of harassment related to experiences of despair, depression, suicidal ideation and what was frequently referred to as ‘breakdown’. People talked of having no opportunity to escape from the pressure.

Not only do the collectors fail to show any sense of human understanding or sympathy in dealing with people who have fallen into debt, they make no effort to point vulnerable people to sources of personal debt advice, or accept that other debts might take priority in terms of repayment (for instance where there is a chance of home repossession or having utilities cut off). Indeed, the pressure to take out new loans at unfavourable terms adds to their financial woes. While it might be one step removed from the criminal loan sharks “sending round the heavies” to recover debts, debt recovery practices of currently legal businesses are often similar in terms of the levels of psychological distress caused.

Left penniless

One practice frequently cited in criticism of the payday lenders’ collection methods is the use of so-called Continuous Payment Authorities (CPAs). These are somewhat like Direct Debits but with fewer protections. Effectively it means the customer gives a company the right to use their debit card to make withdrawals at any time. The OFT issued guidance in response to complaints about the “aggressive” use of CPAs:
Lenders should not use CPA without the informed consent of the borrower or in ways that have not been agreed, and should always explain how CPA works and how it can be cancelled. Lenders should also not try to take payment where there is reason to believe there are insufficient funds in the account, nor should they continue using CPA for an unreasonable period after a scheduled payment was due\textsuperscript{29}.

However, the reality remains that CPA's are flagrantly abused. The Citizens Advice Bureau reported that

one in three complaints about payday loans made to [them] were because of CPAs. Nine in ten payday loan customers who complain about the controversial payment method could have grounds for a complaint about unfair treatment.

\begin{itemize}
  \item 9 in 10 could have grounds for a complaint to the Financial Ombudsman Service.
  \item 1 in 5 were already in financial difficulty or on a debt management plan.
  \item 1 in 6 had money taken without their authorisation.
  \item 1 in 6 said that the payday lender used a CPA to take more money than they had originally agreed.
\end{itemize}

In some cases, bank accounts are completely drained, leaving people with no option but to borrow more to cover basic costs like food or rent, and face high overdraft fees and late payment charges if there isn’t enough money to cover all payments\textsuperscript{30}.

CPAs are leaving some people literally penniless and destitute. Alongside benefit sanctions, this one of the key drivers of people having to turn to food banks, being put at risk of being made homeless, or facing even greater problems with debt. CPAs mean that lenders who find that the debtor lacks the funds can make repeated attempts to raid the account – despite the clear evidence that the individual concerned is experiencing difficulties. The unpredictable nature of the withdrawals – particularly where incomes are irregular, such as for people on zero-hours contracts – can have a devastating impact, and push people into taking out further payday loans just to get by.
Weak reforms

After a great deal of campaigning by charities, trade unions and MPs, the Financial Conduct Authority has announced that from January 2015 there will be stricter regulation of the sector – with a cap of 0.8% interest per day, a cap on default charges of £15, a limit of two “roll-overs” and the total cost of the loan limited to double the original value. Action has been too slow in coming, and critics of the industry such as Labour MP Stella Creasy have warned that payday lenders are trying to evade the regulations (which in any case would only reduce the value of the average loan by £1), by “altering the terms of the loans they offer in an apparent attempt to circumvent definitions of short-term credit, moving from 1000s% APR over a matter of weeks to 100s% over 6 months or longer, or offering to ‘top-up’ loans rather than offer a new loan each time”

Creasy concludes that even with the regulations in place, British consumers will be less well protected than their counterparts in Japan or most of the United States and Canada. The regulations will do little to alter the fundamental business model, or tackle the issue of new loans being offered to people already struggling with multiple debts. To really tackle the problem we would need a comprehensive package of measures addressing the financial difficulties which often lay behind the demand for short-term lending at sky-high rates of interest.

The change we need

- Alleviate financial pressures by boosting incomes, reversing the squeeze of the proportion of national income going to wages and protecting the value of benefits while ending the subsidy to employers paying low wages or landlords hiking up the rent (see Great Pay Robbery booklet, TUCG)
- Introduce the measures contained in Paul Blomfield MP’s Private Members Bill on “High Cost Credit” including:
  - Tighter regulations on payday loans advertising before the watershed, and on unsolicited email, texts and phone messages
  - Require payday lenders to point actual and potential customers to debt advice lines, and to pay a proportion of their profits towards funding these services
  - A requirement to introduce a repayment plan and suspend further enforcement action and charges where a debt advice agency contacts a payday lender on a client’s behalf following a default
  - Compel high street banks to introduce a protected minimum balance on current accounts which would mean CPA or other payments could not leave people with nothing in their accounts.
  - Promote wider access to credit unions via opening up the Post Office network
  - Introduce “real-time” checking of existing client debts to prevent irresponsible lending
  - Investigate options for publicly owned banks to take over and restructure unsecured consumer debts, writing off those elements relating to misleading sales, unfair charges or instances of non-compliance with industry codes of practice.
8.8 million people (18% of the UK adult population) are “over-indebted” in the UK
Raising a family is expensive. Research by the Centre for Economic and Business Research (CEBR) for insurance company LV= estimates that the cost of raising a child to the age of 21 (including helping them fund their way through higher education) now stands at over £227,000, up from £140,398 when the series began in 2003, a colossal 62% increase. NatWest argues this is an underestimate, and that raising a child from birth to 17 years old in fact costs an average of £307,083!

By the time a baby reaches its first birthday it will have cost an average of £11,025, once baby clothes, accessories, cots, prams, painting and decorating a nursery, babysitting and reduced wages from maternity and paternity leave are taken into account. Another study argued that expectant parents need a minimum of £5,464 in the bank before starting a family to pay for these early costs, but less than one in four (23 per cent) have been able to save enough for such a “baby buffer” before starting a family. Given the squeeze in the value of real wages, rising costs of essential goods and difficulty saving for a deposit on a house, the likelihood is that it will only get further out of reach for new parents. Little wonder that more than half will look to their own parents for financial help in the early weeks of a baby’s life.

The cost of childcare

But the bad news is that it only gets more costly from there on in. The cost of pre-school nursery care for toddlers has been rising sharply. The Family and Daycare Trust calculate that “over the last five years childcare costs have risen 27 per cent – meaning parents pay £1,214 more in 2014 than they did in 2009.” This cost is increasing more than five times faster than pay. With child benefits and tax credits also falling in relation to inflation, this additional burden further squeezes a working family’s income. The survey shows that “the cost of sending a child under two to nursery part-time (25 hours) is now £109.89 per
week in Britain or £5,710 per year. For a family with two children in full-time childcare, the yearly bill is £11,703. This makes childcare costs 62 per cent higher than the cost of the average mortgage for a family home⁸⁷. This burden falls particularly heavily on women and single parents. Polling shows that 7 out of 10 women are put off returning to work by the cost of childcare⁸. Parents working part-time on average wages typically find themselves working from Monday through to Thursday just to cover their childcare costs.

Even though the UK is one of the eight richest countries in the world (measured by nominal GDP)⁹, more than one in four children grows up in poverty, a total of around 3.5 million¹⁰. Of these, two thirds are in families with at least one parent in work. Current projections show that by 2020, 4.7 million children in the UK will live in poverty¹¹. Children in poverty grow up missing out on what other children can take for granted – getting to go on a school trip, getting enough pocket money to enjoy a social life, or getting away for a week’s holiday. There is abundant evidence that children living in poverty suffer in terms of educational and health indicators.

Early years support is vital in giving children the best possible start in life, but the least well-off areas have often suffered from a lack of quality local services. The national network of around 4,000 Sure Start centres established by the last Labour government provided an essential lifeline to parents, offering a range of services from childcare to parenting, health and education support and help back into work. The Sure Start centres were also effectively placed to help the hardest-to-reach, most deprived families who were for the first time entitled to receive free, publicly provided weekly pre-school care and support.
Sadly, despite their election promises, Sure Start has been badly hit by the coalition’s austerity cuts. There are now 578 fewer Sure Start centres (which have been closing at the rate of approximately three every week since 2010) and there are 35,000 fewer childcare places, even though the number of under-4s has risen by 125,000. It doesn’t take a genius to work out what the effect this is having. More than half of all local authorities (51%) did not have enough childcare places for working parents, while only one in four (25%) had enough childcare for disabled children. “Over 30,000 of England’s poorest two-year-olds miss out on free nursery education... over one quarter (26 per cent) of this cohort” and “there are 37 local authorities where less than 60 per cent of eligible two-year-olds had been placed”. But it’s not just pre-school childcare that has been hit under Cameron and Clegg. Funding for schools to provide breakfast and after-school clubs, vital for parents working full-time hours with school-age children, was no longer ring-fenced. Before 2010, 99% of schools provided access to such services. But with the savage cuts to their budgets, more than a third of local authorities have reported that this has been scaled back or scrapped. Costs have also risen, with the average after-school club now costing nearly £1,830 a year, or nearly £50 per week. Childcare during the school holidays is even more thin on the ground, with only 27% of English local authorities and 6% of those in Wales having enough childcare provisions at these times. The Family and Childcare Trust reported that “35% of parents found it difficult to find holiday childcare they could afford: 25% of parents had been forced to cut their hours, 17% said they had taken days off sick and 12% of parents had given up a job”. Finding adequate provision is harder still for disabled children or in rural areas.

The coalition’s record on childcare has intensified the effect of rising costs for working parents on low incomes, since it has failed to uprate the childcare component of working tax credits in line with the massive rise in prices since 2005. Its policies are based on a shift away from government guarantees of free childcare entitlements towards a more “demand” based approach, making childcare payments tax-free and leaving individuals to shop around for services as they feel appropriate. This has been described by the IPPR as “regressive, skewed towards benefiting higher income families”, since it offers nothing to the poorest parents who fall below the income tax threshold, yet will offer huge savings for the wealthier who pay for expensive care options. As they comment:

The government has not proposed how they would regulate the market, nor control prices, making a demand led strategy unstable despite significant investment. It is clear that more radical reforms are needed as affordability and quality will remain critical. Supply-funded systems that offer direct childcare provision or direct payments to childcare providers tend to be more effective at achieving lower net childcare costs compared to their total expenditure as well as a focus on high quality provision. Many of these systems also cap costs for parents to ensure fairness. Early years provision is not a commodity that should be largely provided and regulated by market forces. The current direction of travel suggests that costs for parents will continue to spiral despite government investment.

With the government pursuing an approach that is costly, unfair and ineffective, it is unlikely that the costs will start to fall anytime soon.
Food, clothes and Father Christmas

Of course, bringing up children involves costs other than childcare. There’s feeding them, for one thing. The CEBR study estimates that parents will spend an average of nearly £20,000 per child on food and drink by the time they reach 21. With the cost of essential foodstuffs having risen sharply over recent years just finding the money to put food on the table has become a stretch for thousands. The “Below the Breadline” report produced by charities providing for the food poor in Britain suggests that “UK food prices have increased by 43.5 per cent in the eight years to July 2013.” The greater proportion of income going towards food costs, during a period of falling real wages and benefit cuts, has seen food bank charity the Trussell Trust report the number of clients visiting their food banks has more than doubled inside 12 months.

Then there’s clothing, now estimated to cost the average parent over £10,000 per child up to 21. Meeting the needs of the child is just the tip of the iceberg, with adverts and marketing messages encouraging young consumers to demand more and more (as well as imposing non-monetary costs such as health problems like obesity resulting from the behaviours promoted, or the psychological effects of low self-esteem from the promotion of unrealistic body images). One study showed that parents typically spend an average of £460 per year on things they didn’t need after being pestered for items seen on television or on display in stores – sweets, snacks and junk food leading the way, but also for items less obviously attractive for children including DIY tools (13%) and cleaning products (8%).

Christmas puts a special pressure on the budgets of parents, so anxious not to disappoint that they are willing to go into debt to buy the latest gifts so their kids don’t feel left out. The average list to Father Christmas now comes in at an average of £880 – expensive gadgets like iPods, iPads and iPhones increasingly crop up alongside footballs, bikes or dolls. 57% of kids told researchers that they get their ideas from watching adverts. Given this added pressure to have the latest hi-tech games console or the right brand of trainers, hard-pressed parents are taking on more debt in order not to disappoint on the big day.

But children also need financial support a long time after they stop believing in Santa. According Office of National Statistics figures, 3.3 million young adults (aged between 20-34) still live with their parents. This is the result of a variety of factors, from the impact of youth unemployment during the recession to the long-term shortage in housing supply driving up prices and rents. As we saw in the Great Pay Robbery booklet, it now takes a two-earner
couple eleven years to find enough for a deposit in London, while a single earner would take over a decade to earn enough to become a first-time buyer in 76% of local authority areas across the UK. Many of those who do get a foot on the housing ladder have been able to turn to the “bank of Mum and Dad” – with parents contributing £2 billion a year to help their children become homeowners. But if parents can’t afford to shoulder a financial burden, they are increasingly seeing their children living at home into their thirties. Relationship guidance charity Relate reports that this is “putting pressure on parents who had expected their children to move out when they went into higher education... Couples who had held on for the sake of the children find that they are holding on for longer.”

**Tuition fees and textbooks**

Finance is also a major potential barrier for young people wanting to go into higher education, not least since the coalition government trebled university tuition fees. Research from the Sutton Trust shows that the average student will now face in excess of £44,000 debt from going through HE, and face making repayments into their 40s and 50s. While this debt burden might remain notional in the first instance, with those on the lowest incomes not having to make repayments, those who go into jobs like teaching will “have to find up to £2,500 extra a year to service loans at a time when their children are still at school, and family and mortgage costs are at their most pressing”. The prospect of having this albatross around your neck for most of your working life is understandably something that would make you think twice about continuing in education at all.

But long before the question of loan repayment kicks in, students have to consider far more than the cost of their tuition fees, including the cost of textbooks, accommodation fees, travel and other day-to-day living costs, which mount up quickly. For instance the cost of the cheapest university digs increased by an average of 11% over the last three years, further raising the barriers to entry for the poorest students. Around two thirds of students are now subsidising themselves by working part-time alongside their studies, frequently in places such as fast food restaurants or bars where they are more likely to be exploited on zero-hours contracts. In this environment it is no surprise that 237,000 students now choose to keep costs down by continuing to live with their parents whilst studying at university. As with childcare, as universal entitlements have come under attack, the system is returning to one of privilege for those who can afford it. For those students whose parents are either unable or unwilling to cushion the blow by helping out financially or keeping a roof over their heads, higher education looks increasingly unaffordable.
Tying the knot

The costs of parenting don’t even end when they’ve fled the nest. With the average wedding now costing in excess of £18,000 it’s likely you’ll be asked for help here too, if not with the cost of the honeymoon (on average £3,582), or the rings (£1,856) then perhaps with the wedding dress (£1,098), the venue (£164), the catering (£2,770), the flowers, decoration and cake (£728), or the photographer (£876). That’s before we get to kitting out any bridesmaids, groomsmen or pageboys.

Then, given the lack of affordable childcare we have discussed, grandparents are increasingly called upon to step into the breach. Of course, spending time with their grandkids might not seem like a chore, but being permanently required for regular unpaid shifts is something else. It is estimated that the generosity of grandparents with their time relieves the state over around £8 billion in spending every year. However, polling evidence suggests that nearly 2 million grandparents (14%) “have cut their working hours, given up jobs, or taken annual or sick leave to care for their grandchildren.” Together with those parents, usually mothers, who find that the lack of affordable childcare options means it’s not worthwhile to go out to work, the impact of volunteers meeting needs with unpaid work is detrimental to the overall economy.

The crisis in care

But childcare is just one part of an overall crisis in care services, including help for elderly, sick and disabled adults who need help with everyday tasks in order to live independent lives. The coalition will have forced £20 billion in cuts and “efficiency savings” from the budgets of local councils by 2015, which has produced a devastating effect on the range and quality of local
services provided at a time when demand is growing steeply. Adult care services have been particularly affected, with care increasingly restricted to those deemed eligible for substantial and critical care support. Charges have been introduced for some services formerly available for free, and other services have been withdrawn altogether. The *Guardian* reported that “over a quarter of a million older people have lost their state-funded help with carrying out everyday activities such as bathing, dressing and eating”.

Many of those who do continue to receive visits find that they are given assistance for no longer than 15 minutes. The Leonard Cheshire Disability charity has indicated that “63 local authorities pointed to a 15% rise in such visits in the last five years” and that “in some councils more than 75% of care visits were carried out in less than 15 minutes.” This is often manifestly inadequate to meet the multiple daily needs of elderly or disabled people.

These attacks on the care services available to adults mean the burden is again increasingly falling on unpaid family members or neighbours willing to provide help, or else needs are going unmet, at the same time as benefit entitlements are being withdrawn or questioned (see Great Pay Robbery). Far from helping carers and rewarding them for their immense contribution to helping vulnerable people live independent lives, the coalition has seen fit to leave even more unpaid work at their door.

Finally, as we live longer, more of us are likely to end our lives in residential or nursing care homes. Here, too, the cost of a room is said to have rocketed by 9.3% in the two years to 2013, and now represents more than double the average pensioner’s income, meaning that pensioners are forced to eat more deeply into any savings they might have. However, it’s not just the cost of a care home that concerns most of us but the quality of the care received. Keeping costs down by employing unsuitable staff on exploitative zero-hours contracts is hardly a recipe for better care. With the private sector running care homes, the danger is that there is more concern for the balance sheet than with providing adequate care for the residents.

The collapse of the Southern Cross group in 2011 saw shareholders of US private equity concern Blackstone make a killing by leaving the company seriously over-leveraged – and 31,000 residents in 752 homes facing the wrench of being forced to move if they company went bust. Only the intervention of a taxpayer bailout protected the elderly residents. Clearly care was not at the top of the company’s priorities, with a coroner’s verdict describing the company’s Orchid View home near Crawley as “mismanaged and understaffed” and riddled with “institutional abuse.” It’s not what we would wish for ourselves or our loved ones, but sadly it does not appear to be an exceptional case.
The change we need

- Introduce free universal pre-school childcare
- Reinvest in Sure Start centres to offer quality early years provision to all
- Reverse benefit cuts and tax wealth to eradicate child poverty
- Ring-fence funding for every school to provide affordable breakfast and after-school clubs
- Curb commercial advertising during children’s TV
- Restore full maintenance grants for higher education students including the cost of tuition
- Start a mass building programme for genuinely affordable and council homes
- Restore adult social care budgets to pre-2010 levels, reinstate benefit entitlements and boost caring allowances
- Properly integrate social care, health care and mental health services into a single coherent and properly funded national system based on public ownership and control of resources, not market competition
- Extend the Scottish government’s offer of free personal care for the elderly to England, Wales and Northern Ireland
- Boost the pay, conditions and training of residential care workers, and prevent homes from being taken over by asset-strippers, speculators and profiteers
Gas and electricity are basic everyday essentials – every modern household needs to pay for the energy it consumes in heating, hot water and running domestic appliances. The basic infrastructure that provides energy to our homes is the same: the network of gas pipes and the national electricity grid. This used to be held in public ownership and run for the common public good, a sensible arrangement given that energy is not just any commodity but a key strategic industry on which everyone depends.

But in the 1980s, the Thatcher government began to pursue the ideologically-driven privatisation of the energy industry, putting profiteering private companies in charge of managing both the energy infrastructure and the domestic supply of gas and electricity to our homes. This also set in train the transfer of public assets in the energy generation sector into the hands of private shareholders.

Botched sell-off

By no means was this in the interest of the taxpayer. For instance, as a result of the botched privatisation, British Energy (a company whose assets included key nuclear power stations) ran into serious financial difficulties, requiring the government to step in with £3 billion support to enable the company to be restructured under government control. Once the public purse had absorbed the costs, the more commercially attractive bits were floated back on the market. Eventually in 2006 it passed back into the hands of EDF Energy (which is, ironically, owned by the French state).

“Big six” dominate

Such privatisations have meant that the energy sector is “vertically integrated”, in other words that the same companies responsible for generating energy are also responsible for buying that energy in order to supply it for domestic consumption. The market for
both generation and supply is overwhelmingly dominated by the same “big six” energy companies – British Gas (part of the Centrica group); Npower (part of German energy giant RWE); SSE (formed by the merger of Scottish Hydro and Southern Electric); Scottish Power (owned by Spanish giant Iberdrola); E.ON (formerly Powergen before it was swallowed up by the German E.ON group); and EDF. These six companies are responsible for 95% of all UK household gas and electricity.

Punishing loyalty

The picture is all the more alarming when it comes to the near-monopoly power single companies hold in particular regions. Far from privatisation having opened up a competitive market that would force companies to be more efficient, as its advocates promised, in fact the majority of consumers have stuck with the majority local provider from the days of monopoly ownership.

An average of 70 per cent of households across all regions use the same electricity supplier, with the proportion rising to 85 per cent in some areas, undermining claims by the government and Ofgem, the regulator, that the energy market is operating competitively.

Data from the Department for Energy and Climate Change (DECC) reveals that customers who have stayed with their old electricity supplier are paying more than those who have switched. DECC analysis shows that these “home suppliers” charge an average of £31 a year more than non-home suppliers for electricity – in effect placing a premium on loyalty. The largest five electricity suppliers dominate the regions they inherited from utility boards more than two decades ago, while British Gas still retains the largest share of the retail gas market nationwide. This is despite consumers being encouraged by price comparison websites to shop around for the cheapest supplier.  

Confusing tariffs

Consumers don’t want to have to navigate a vast amount of complex data comparing rival companies’ tariffs when even experts find difficulty in deciding which one would represent best value for money over the long term. Even if you manage to identify a tariff that appears to offer savings, the hassle of swapping providers (stopping and starting direct debits, choosing billing options etc.) means that few people want to change providers more than once in a blue moon. Most people just want a reliable service with minimum fuss which doesn’t leave them feeling ripped off. Instead, private companies are punishing consumers for their loyalty, and failing to warn them even if their existing tariff is totally unsuitable.

Soaring prices

Whatever the tariff and the provider, most people have been seeing their gas and electric bills rise substantially over recent years, an effect that is all the more pronounced when we take into account falling real incomes over the same period. According the Department for Energy and Climate Change:

the average prices of gas and electricity paid by UK households had risen by around 18% and 9% (in real terms), respectively between 2010 and 2013, and by around 41% and 20% (in real terms), respectively, between 2007 and 2013. 

As one energy price comparison site points out, “the average household energy bill is now an eye-watering £1,265 a year – £53 more than a year ago and an astonishing £793 or 168% higher than in 2004”4.

After last winter’s price hikes, it is estimated that 14% of households are now in debt to their energy supplier, amounting to some £464 million. Consumer group Which? told MPs that “domestic energy prices were consistently either the highest or second highest concern, [and] up to 40% of consumers had used savings or credit to pay for their domestic energy”5. Citizens Advice report that, with gas and electricity bills having risen around eight times as fast as incomes,

the impact energy price rises are having on people’s ability to have a decent standard of living is causing grave concerns... Bureaux often see clients who are on the brink of financial despair. Parents often face tough choices between putting the heating on, clothing their children and feeding the family6.

Fuel poverty

Analysts estimate that in early 2014 there were 6.59 million households in fuel poverty in the UK7, up from 4.45 million in 2011, as measured by the traditional definition of fuel poverty according to which a household

needs to spend more than 10% of its income on fuel to maintain a satisfactory heating regime. This is considered to be 21ºC for the main living area and 18ºC for other occupied rooms during daytime hours. Besides space heating, fuel costs also include spending on energy for water heating, lights and appliances and cooking8.

This is not a measure of what households actually spend on heating, but of their needs in relation to their income, the price of energy and the energy efficiency of their homes. Fuel poverty particularly affects elderly and disabled people, infants and those with long-term sickness. Vulnerable groups often need to use more energy because they spend more time at
home, require heating during the night or over summer months for health reasons, and have greater laundry costs\textsuperscript{9}. Taken together with rising prices, this can mean fuel poverty exacerbates already distressing circumstances. Scandalously, for example, 20\% of people living with cancer told Macmillan that they have had to turn the heating off over winter due to money worries\textsuperscript{10}.

The problem of fuel poverty is compounded by the fact that low income households are more likely to experience poor housing conditions, and face living in properties that suffer from damp and poor insulation. In comparison to more modern energy-efficient homes, these properties require greater energy usage to bring the home to a comfortable temperature. A home built in 1960 loses three times more heat than one built today\textsuperscript{11}. The UK has the oldest housing stock in Europe\textsuperscript{12}, which is another reason why Britain has a higher incidence of fuel poverty than countries such as Sweden, despite Sweden’s colder climate.

**Government inaction**

Even though the British government now has a statutory duty to do everything “reasonably practicable” to eliminate fuel poverty by 2016, there is no sign of this target being met. Indeed, Prof John Hills, who was commissioned by the government to report on fuel poverty, estimated that 8.5 million people will be unable afford their energy bills by 2016. But far from helping, in some respects the coalition government has taken us backwards, by failing to address spiralling energy costs while refusing new claimants access to schemes like Warm Front, which helped poor and vulnerable people struggling with fuel bills to make their homes more energy efficient. This is an outrage given that according to World Health Organisation estimates 30-50\% of excess winter deaths can be attributed to cold indoor temperatures. In the UK around 60 people a day – 7,800 a year – die because they are unable to heat their homes properly.\textsuperscript{13}

**Pre-pay meters punish the poorest**

Some of the poorest households are paying up to £300 a year\textsuperscript{14} more for their energy than more affluent consumers, since the energy companies typically charge more per unit of energy bought via pre-paid meters than for tariffs based on payment via direct debit or traditional credit. Similarly, those who are already in debt are more likely to find themselves trapped into paying via such meters, having to put up with the inconvenience and the danger of finding themselves without power. Pre-payment meters also do nothing to enable families to spread the burden of heating costs throughout the year rather than facing a particular burden during the cold winter months.

Similarly, they can also be subject to standing charges, meaning that the consumer not only pay more for the energy they use, but also for the dubious privilege of having their power supply regulated by pre-pay meter in the first place! For example, for every £10 of energy credit bought on SSE pre-payment cards, £1.92 goes into standing charges. Scotland’s Daily Record newspaper calls it a “stealth charge” on 900,000 of the company’s poorest customers. Granddad-of-two Dennis told the reporter that he had to live on £140 a week of benefits and tried to spend no more than £20 on gas: “These energy companies have no idea how a few pounds a week can have a big impact on people’s lives. Either that, or they just don’t care”\textsuperscript{15}.
**Billions in profit**

While families across the country have been plunged into despair over the prospects of keeping warm, the fat cat bosses at the top of the big energy companies have been doing very nicely. Consumer Focus told MPs that “the pre-tax and investment UK profits of the big six energy companies increased by 36% between 2008 and 2011, from £6.67 billion to £9.09 billion”\(^{16}\), although supply of energy to domestic properties represents only one dimension, with a sizeable chunk of these profits coming from the generation and trading of energy. It is no means straightforward to analyse and compare the profit margins of each aspect of a company’s activity – and despite Ofgem’s attempts to require transparency in the publication of financial statements, the Energy and Climate Change Select Committee found that:

> Despite huge turnovers, and in some cases large profits, the six largest energy companies have made significantly different levels of profit and loss between the supply and generation parts of their business. The actual level of profit in, for example, the energy supply arm is therefore difficult to establish... We remain concerned that efforts are falling far short of what is required to improve transparency, increase competition and enhance consumer trust.\(^{17}\)

Energy company bosses have been quick to cite the “complexity” of the industry as a reason for failing to adequately account for recent price rises. But consumers rightly suspect that the profit from their rising energy bill is being trousered by wealthy shareholders. Take E.ON, which raised its bills by around 9% at the start of 2013\(^{18}\) and then posted a profit rise on the supply of energy to UK homes of 26%\(^{19}\), or Centrica (owner of British Gas), which saw its profits rise 9% to £1.58bn for the period to June last year after having put up its average dual-fuel bill by over 9%. Pure coincidence?

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*SHALOM TESUBA*

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*Fuel poverty forces people to choose between heating and eating*
Of course this is not to deny that costs of generation have been increasing. Part of the problem is the over-reliance on increasingly depleted stores of fossil fuels, which are becoming progressively harder to extract. Aside from this, we can’t afford the damage to the climate which would follow from any failure to meet carbon emissions targets. As campaigners point out:

Once extraction, which is becoming increasingly energy intensive, and transportation are taken into account, gas isn’t that much cleaner than coal. The government’s independent climate advisers, the Committee on Climate Change (CCC), have stated that the low carbon grid of 2030 should produce no more than 50g of CO₂ for every kilowatt hour of electricity generated. Gas produces 350g CO₂ for every kilowatt hour at the point of generation.²⁰

Any energy mix which depends upon expensive and risky technologies such as hydraulic fracturing ("fracking") of shale gas deposits threatens further escalating costs – and environmental damage. Similarly, new nuclear power plants are likely to require billions in public subsidy, with the new Hinckley Point C plant in Somerset alone costing a staggering £24.5 billion to build. As part of the deal brokered by the government, the British taxpayer will be locked into paying double the current wholesale price per unit of energy for the next 35 years. For this, EDF gets to pocket 40% of all profits over and above the 13.5% return on capital guaranteed in the contract. Greenpeace called it a “world record sell out to the nuclear industry at the expense of the taxpayer and the environment”. It’s hard to disagree. Former Number 10 policy advisor Nick Butler commented in a blog for the Financial Times, “The deal will go down in history, alongside the privatisation of the Royal Mail, as an example of the inability of the British government – ministers and civil servants alike – to negotiate complex commercial deals”. We will be left paying the price.

**Long-term upwards pressure on bills**

The National Audit Office has projected that the energy infrastructure of the UK requires £176 billion of investment in order to replace ageing assets, meet policy commitments on climate and cope with the needs of a growing population. The NAO report states bluntly what this is likely to mean:

High levels of expected investment in new infrastructure mean... bills may rise
significantly. Consumers will pay for the infrastructure itself, along with the costs of maintaining and operating the infrastructure. Future bills will also be influenced by other factors, such as changes in world energy prices and initiatives to help consumers use less energy and water. The Department of Energy and Climate Change’s central projection is for an 18% increase in energy bills in real terms by 2030 \(^2\).

Structural pressures mean that already sky-high bills are likely to climb higher over the coming years unless we take a radically different approach.

**Resetting the market?**

Ed Miliband’s talk of “resetting the energy market” and helping out hard-pressed consumers with a two-year energy price freeze opened up an important debate on how working people are being ripped-off at the hands of the energy bosses. It is no surprise that the promise of some relief from massive increases in fuel bills would receive a warm welcome given the present cost of living crisis. In response, Centrica’s chief executive Sam Laidlaw – who received a package of pay and benefits of £2.2 million in 2013 \(^2\), on top of nearly £4.3m the previous year \(^2\) – chose to blackmail the public with the threat that this policy would see a return to blackouts and threatening to pull the plug on investment. However, despite the initial cry of alarm from the fat cats, the big companies have started to reconcile themselves to Miliband’s fairly modest set of proposals. SSE, for example, voluntarily announced a price freeze to 2016.

Nevertheless, there are obvious limitations to Labour’s willingness to tackle the power of the energy companies. A price freeze can be anticipated by front-loading rises to bills before the freeze kicks in, or storing up increases until after 2016. Similarly, shareholders can look to protect their profit margins by slackening levels of investment. Even former Tory PM Sir John Major, recognising that Miliband’s price freeze would do little to claw back the mega-profits that energy firms have extorted from the taxpayer, proposed a windfall tax on their excess profits. There is a case for such a tax, but this still wouldn’t address the ongoing structural flaws in the energy market. Separating generation, trading and supply, making reporting of profits properly transparent and replacing the failed regulator Ofgem would all be positive moves.

**Bolder action needed**

But polling evidence suggests the public would be bolder still. Why should shareholders of multinational companies cream off profits from providing energy, when the industry could be brought back under public ownership and run in the common public interest? Why
shouldn’t billions in profits be re-invested in keeping energy bills down via energy efficiency programmes to make a warm home affordable to all? Instead of short-sighted investment in fossil fuels, a publicly owned energy industry could invest in renewables and green technologies which would – over the medium term – begin to deliver a de-carbonised, affordable and sustainable future. A YouGov poll last year saw 68% of respondents support the idea that energy companies should be in the public sector, including even a majority (52%) of Tory voters.\(^\text{24}\)

We wouldn’t need to return to a bureaucratic, top-down model of state ownership where workers and consumers are excluded from remote structures of decision-making. An energy revolution could allow local community energy co-operatives to contribute to a genuine mix of renewable energies helping to break reliance on fossil fuels.

**The change we need**

- Bring the energy companies back into public ownership – keep bills down, invest for the future and run utilities for the common good
- Expand energy-efficiency programmes to insulate homes, with targeted support for the least well off
- Pre-payment meters only installed on request, with no unfair pricing and charges
- Work with credit unions and local authorities to provide low-cost credit for fuel poor
- Break from the dependence on fossil fuels – invest in renewable energies such as wind, solar, and wave
- Encourage local community energy co-operatives
- No to fracking

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3. DECC, Estimated impacts of energy and climate change policies on energy prices and bills, March 2013
11. [http://bura.brunei.ac.uk/handle/2438/6832](http://bura.brunei.ac.uk/handle/2438/6832)
19. [http://www.telegraph.co.uk/finance/personalfinance/householdbills/10692194/E.On-UK-energy-supply-profits-leap-26pc-to-296m.html](http://www.telegraph.co.uk/finance/personalfinance/householdbills/10692194/E.On-UK-energy-supply-profits-leap-26pc-to-296m.html)
Cost of Transport

Along with energy and childcare, the soaring cost of transport has been one of the key ingredients of the cost of living crisis. Regular travel by public transport is becoming increasingly unaffordable for those on low and modest incomes. Over a period when real wages have been under sustained downward pressure, rail prices have gone up cumulatively by an eye-watering 25% since the 2010 general election, rising faster than wages in each year (with average nominal earnings having risen by just 10.7% over the period).

The coalition has scrapped the Retail Price Index (RPI) measure of inflation for calculating pay rises, pensions and benefits in favour of the less generous Consumer Price Index (CPI). However when it comes to calculating rises in the cost of rail fares, the benchmark is still RPI, on top of which the private train operating companies can add an additional 1%. This means that fares will be going up by an average of 3.5% again this year, nearly twice the rate of CPI inflation, which itself is still outstripping many workers’ pay settlements.

Rocketing fares

Since the privatisation of the rail network fares have risen on average by 22% in real terms, and the price of walk-on fares has risen in some instances by as much as 245% since private operators took over from British Rail. No doubt with an eye on the forthcoming elections, George Osborne has chosen to freeze the additional “flex” rule that would otherwise have seen some fares rises by 5.6%, but has not ruled out letting train companies whack up peak fares again in future years.

People relying on rail services to get to their workplaces are feeling the pinch most acutely, with commuters in Britain typically spending more than 14% of their income on fares, compared to less than 5% in Germany, Italy, Spain and France. A season ticket from Reading to London, for example, will cost a whopping £4,325 in 2015, following an increase.
of £147, and it will be £3,203 from Plymouth to Exeter St Davids. Similarly, to the anger of passengers who depend on its services, Northern Rail has recently placed restrictions on early evening services, which are now subject to expensive peak-time fares meaning some fares have increased by over 100%. For low paid and part-time workers, and those not able to take advantage of season ticket offers due to changing shift patterns, this will be a particularly heavy blow.

**Overcrowding**

Where is all this extra revenue going? If it was all invested in producing a faster, safer, more reliable, less overcrowded rail network then rail passengers might be open to paying a little extra. However, the evidence suggests that the pain far exceeds any gains, with less than half of respondents to the latest Passenger Focus survey (45%) feeling that train travel offers overall value for money\(^5\). Many commuters are paying thousands every year without even the luxury of a seat for their journeys to show for it. Government figures show that over 100,000 people every day have to stand on their commuter journeys into London\(^6\), with 48% of passengers on London Overground services having to stand in the morning rush-hour. It’s not only in the capital where passengers face overcrowded conditions. The lowest ranked train operating company in customer satisfaction ratings last year was First Transpennine Express, with just 58% of respondents judging their journey satisfactory in terms of space on the train\(^7\).

**Subsidising failure**

With passengers also complaining about ageing rolling stock, delays, cancellations and over-running engineering works, it is hardly any wonder that people don’t feel they’ve been getting value for money. Rocketing fares are not the only way in which the travelling public
has been ripped off, since UK taxpayers continue to subsidise the private rail operators to the tune of over £4 billion\(^8\) a year. Privatised railways have become a significantly greater drain on the public purse than the nationalised service was, with subsidies having risen by in excess of 66% compared to those enjoyed in the final year of British Rail's existence\(^9\).

However, even this underestimates the real level of subsidy enjoyed by private operators, since Network Rail (which has finally been brought back into public ownership, after being set up as a not-for-profit company due to the debacle of the profiteering Railtrack going into administration) has been charging just £1.59 billion to allow private companies access to the track, compared to £3.18 billion formerly charged by Railtrack. This hidden subsidy, on top of the billions openly paid to the private companies, has allowed them to protect their profits and direct 90% of them to shareholders in the forms of dividends, including £200 million in the last year alone\(^10\).

**Costly privatisation**

The bottom line is that the myth that was peddled – that private competition would increase efficiency on our railways – has turned out to be utterly untrue, having in fact produced the opposite effect. Even Sir Roy McNulty, commissioned by the government to justify austerity-driven cuts, was forced to admit that

> the industry has problems in terms of efficiency and costs... among the principal barriers are fragmentation of structures and interfaces... ineffective and misaligned incentives, a franchising system that does not encourage cost reduction sufficiently, management approaches... and a railway culture which is not conducive to the partnership and continuous improvement approaches required for effective cost reduction\(^11\).

In other words, privatisation has fragmented the system such that the company running the track, the train operating companies running passenger services and the companies leasing them the rolling stock (ROSCOs) all have different and sometimes clashing interests. Inevitably, the multiple interfaces between these different sub-units leads to inefficiency and greater costs, before we even get to the multiplied opportunities for shareholders to leech from the system in the form of their dividends.

The franchising system inevitably means that rival operators each have to line up a massive army of accountants, consultants, lawyers and marketing specialists in order to formulate competitive bids, while another army of civil servants is required to analyse and compare them. The fiasco of the collapse of the franchising round on the West Coast line alone is judged to have cost the taxpayer at least £50 million (with MPs warning the real figure could be “very much larger”\(^12\)). But even where the process doesn’t fail so spectacularly, it is an inherently wasteful and inefficient use of resources by organisations that rely on such lavish subsidies from taxpayers and passengers.

In fact the views of passengers don’t count for very much in deciding whether a private company’s performance is adequate. Southeastern commuters recorded the lowest overall satisfaction ratings of all the 23 franchise operators, with just 30% regarding them as offering value for money. However, the government decided this was still enough to merit rewarding them with an extension of their franchise until the middle of 2018 without even considering the benefits of improving the service under public ownership.
**Franchising chaos**

The franchising system also understandably limits the horizons of the rival operators, who are reluctant to take long-term strategic investment plans from which they are not certain to benefit. The argument that privatisation transfers the risk from the public sector to the private sector is another obvious lie. In fact, academic experts have calculated that the “return on capital” (the level of profitability relative to the outlay a company has “risked”) in the rail industry is a mammoth 147%, indicating that companies are making a great deal of profit in return for risking a small level of investment\(^\text{13}\).

In effect the risk of private sector failure remains with the taxpayer, as with the collapse of Railtrack, which means that the privatised rail network is effectively a licence for the rich shareholder to print money. Public sector operators like Directly Operated Railways (DOR), which rode to the rescue to provide passenger services on the East Coast main line when National Express pulled the plug on its franchise, not only displayed a better level of performance but also returned £208m back to the taxpayer\(^\text{14}\). But rather than allow this to become a precedent for the rest of the network, the government is ideologically insistent that it must be handed back to the private sector.

It has been calculated that the privatisation of the railways had already cost a minimum of £11 billion by 2010\(^\text{15}\), once dividend payments, fragmentation costs, the “sunk costs” involved in the privatisation (underselling the ROSCOs, and writing-off debts/transferring liabilities in order to sell off Railtrack), and the costs of excessive interest payments on Network Rail’s borrowing on the private market are taken into account. If this sum had gone into reducing fares, it would have resulted in an across-the-board reduction of fares of some 18%\(^\text{16}\), helping households significantly with the affordability of rail travel.

**On the buses**

Though less well publicised than the effects of rail privatisation, the deregulation of the bus market has been equally disastrous, particularly outside London. Though not a sexy issue for the media, buses really matter to millions of us. After all, people make more than 5 billion
journeys by bus every year, more than three times the number of train journeys, and more than one in eight people in Britain rely on the bus in order to get to work. For the young, buses are essential for getting to college or finding work, while for elderly people bus travel offers a vital link to overcome isolation. People who live in rural communities are particularly reliant on affordable and regular bus services, the lack of which falls particularly on the poorest, who are less able to afford car ownership or expensive taxi journeys. Getting more of us taking the bus would also be useful to relieve congestion on our roads, to help people find work, get to college or the shops (good for economic growth), and to reduce carbon emissions to tackle climate change. More and better bus services, affordable, convenient and accessible, would be a social good.

Sadly, thanks to a combination of deregulation to allow private profiteers to dominate bus services and the impact of austerity cuts to public spending, the trends are all going in the wrong direction. The title of the Campaign for Better Transport’s report “Buses in Crisis” is no exaggeration. Figures from the RMT union suggest that since 1995 bus fare increases have outstripped inflation by over 40%. That’s if your bus service hasn’t been cut altogether. As CfBT report, since 2010 over £56 million has been cut from supported bus services, with many routes and services being cut completely. In the south east of England alone 160 bus services have been cut or withdrawn since 2011, and a similar pattern is replicated across the country. As fares have rocketed overall passenger numbers have consistently fallen, with the number of bus journeys outside London down by 36% since deregulation in 1986.

Big five exploit monopolies

So what’s been going so wrong? The Competition Commission has been forced to acknowledge both the failure of deregulation to provide effective competition, with 70% of services provided by just five operators: Arriva, FirstGroup, Go-Ahead, National Express and Stagecoach. Head-to-head competition between providers was said to be “uncommon” and “many local markets exhibit persistently high levels of concentration”. In other words, in many of our major towns and cities a single operator tends to dominate the market to the exclusion of competitors, and is able to use this advantage to force passengers to pay higher fares. Indeed, the investigation found evidence that, at least in the north east of England, bus operators were agreeing to carve up areas between themselves so that they could enjoy...
such local monopolies.

Before bus services were opened up to for-profit operators, publicly owned and operated bus companies could cross-subsidise services, so “profitable” routes could help to support routes which were socially necessary but not viable in purely commercial terms. With deregulation, private bus operators can cherry-pick which services to operate, concentrating on those which allow them to make money while withdrawing less profitable services unless local authorities stump up extra cash. The government doesn’t even record centrally how many services are withdrawn by private operators, with no legal requirement on the latter to consult the communities affected.

As with the privatised railways, bus operators continue to extract huge subsidies from the taxpayer and ever-increasing fare revenue from passengers. In 2012-13, all local UK bus services generated £5.5 billion revenue for operators – 76% of that was from passenger revenue, including the concessionary bus fare scheme subsidised by the public. While the concessionary fare scheme should continue, it was a source of £810m in revenue to private bus operators outside London in the last year alone. As such, under the current deregulated system, this significant subsidy is not reinvested in the industry and instead makes a major contribution to the profits of Stagecoach, Arriva, National Express, Go-Ahead and First Group.

The deregulated market’s estimated annual value is around £4 billion and the big five transport companies make no secret of their plans to target it to increase their profits, in direct conflict with the interests of passengers, bus workers and the taxpayer. This blatant profiteering must be met with a strong regulatory response by government if this pattern is to be stopped and bus services returned to serving the interests of passengers, bus workers and society.

It should also be noted that bus workers, as well as passengers, have been hit hard by the deregulation in the bus industry. In 1985 bus workers earned 7% above the average weekly wage in the UK – today they work four hours more but are paid 14% less a week than the average UK worker.

Local cuts see buses cut or withdrawn

Currently 78% of bus services outside of London are run by for-profit operators, while 22% are subsidised or supported by local authorities. The latter include services to communities which would otherwise be totally cut off from the public transport network, evening or weekend services that commercial operators can’t run at a profit, or other socially necessary services. The ability of local authorities to maintain such support has been drastically undermined by coalition government cuts to their budgets. As the Campaign for Better Transport explains:

As part of the coalition government’s Spending Review in 2010 it was announced that government funding to local authorities for transport would be cut by 28 per cent; and that the Bus Service Operators’ Grant (BSOG) – which provides direct support for all bus services – would be cut by 20 per cent from 2012-13. In addition, the Department for Transport changed the formula for funding local authorities for the statutory free travel scheme for older people and those with disabilities. The effect of this formula change has been a cut of around £60m for local authorities. This under-funding of the concessionary fares scheme means that less funding is available for supported services. With such reductions it is
unsurprising that councils are making cuts to services. Delivering the same level of
bus services, and responding to increased demand for some services, while nearly
30 per cent of funding has been taken out of budgets represents a huge challenge
for local authorities, a challenge that inevitably many find impossible to meet^{21}.

Some councils have been able to protect supported bus services to a greater extent
than others, but with the burden of the cuts falling most heavily on those council areas
with greatest social need, the impact has been most severe in some of the least affluent
areas of the country. Towns like Hartlepool and Darlington have eliminated all spending on
supported bus services, while towns and cities across the south and east of England slashed
their spending, in some cases by in excess of 40%.

**Lack of public transport options punishes the vulnerable**

Bus services are particularly important for those on low incomes with only 30% of the
poorest households and 40% of households including disabled people^{22} owning a car^{23}.
Although the cost of motoring has not risen as quickly as public transport, the combination
of purchasing a vehicle, paying the road tax, insurance and getting it MOTed are all
substantial hurdles for poor households, even before the cost of fuel is taken into account.
Nevertheless, low paid and part-time workers are sometimes left with no choice but to put
this additional major pressure on their family finances given the lack of available public
transport options. The poorest fifth of the population take roughly three times the number
of bus trips as the richest fifth, but with the cuts and withdrawals of service these same low-
income households for whom car ownership is out of reach are now forced to take more taxi
journeys than any other section of the population. At the same time the big five private operators continue to make huge profits from their tightening grip on the industry. According to consultants LEK, their profit margins have been running at 11.2%, prompting even then transport minister Norman Baker to complain, “We have to ask ourselves why it is that the cost of bus travel has gone up so much while bus company profitability is extremely healthy.”

**Lower fares AND better services – only under public ownership**

Yet the performance of the remaining municipally owned bus companies – operating in cities including Newport, Blackpool, Nottingham, Cardiff, Edinburgh and Reading – suggests that this model is capable of offering excellent passenger services and cheaper fares. But if the present crisis in bus provision is allowed to continue this will “undermine... policies to promote growth, reduce unemployment and tackle welfare dependency”, while also affecting the poorest households most heavily, leading to the social isolation of elderly people and to greater pollution, congestion and carbon emissions.

The previous Labour government’s introduction of Quality Contract Schemes for the regulation of local bus services offers some potential but is blighted by the excessive levels of bureaucracy required to introduce them. As a result, no local authority has a QCS, over a decade after they were introduced. The real key to regaining control over bus services is ownership of the fleet and clearer democratic accountability for local bus services, which is where municipally owned services have significant advantages.

The withdrawal of essential services is not a “price worth paying” in order to keep excessive fare increases under control. The idea that we must accept one or the other is utterly false. Take the example of London Underground. In total, fares on public transport in London have risen by 13.2% above inflation since 2009. Some 84% of passengers report that fares are too high. But Transport for London’s “solution” to keeping costs down is to remove all ticket offices from London Underground stations, which is certainly not something that passengers are demanding. Indeed, the travelling public are rightly concerned about the potential implications for safety and levels of service.

The real inefficiencies lay elsewhere, with the disastrous Public-Private Partnership, the bloated salaries of senior managers, the complex interfaces between London Underground, track operating companies, engineering sub-contractors, outsourced cleaning firms and all the rest of the elaborate structure through which the network has been opened up to the interest of private profit. The answer is not to keep a lid on costs by undermining services and attacking the pay and conditions of the workforce, but to restructure the network to operate for the public good rather than for the dividends of shareholders.
The change we need

- Bring the railways back into public ownership, with passenger and worker representation in the operational and strategic management of the network
- Use the savings from renationalisation to reduce fares and invest in infrastructure
- Promote the use of rail freight to alleviate congestion and pollution on the roads
- Allow local authorities to take local bus services back under municipal ownership, including the option of a municipally owned and operated bus fleet
- Create strategic transport authorities outside London with passenger and worker representation, with effective powers to regulate transport fares, requiring profit-making companies to cross-subsidise the provision of socially necessary services
- Keep ticket offices open on London Underground, and reunify the track, maintenance and operation of passenger services under public ownership
- Mandate the introduction of a flexible fares structure across public transport for part-time workers
- Defend funding of concessionary travel entitlements, including pensioners’ bus passes
- Invest in creation of cycle lanes and development of green transport
- Increase charges on domestic flights
It is easy to forget what a transformation we have witnessed over the last two decades in the world of information technology and digital media. When the last Tory government left office in 1997 the mobile phone was only beginning to move from the days when yuppies on the stock exchange floor would hold something the size of a house brick into the kind of basic device that would become widespread. In 1997/98, household ownership of mobile phones stood at 20 per cent of UK households, a figure that grew to 78 per cent over the next decade.

At this time email was just emerging as a technology which was more convenient than fax machines. The internet was still in its infancy as far as mass household use, reliant on slow dial-up connections. The world of apps and high-speed digital downloads of content such as full-length films or albums was still a distant prospect. With neither wifi nor smartphones yet invented, both would be accessed only via personal computers tethered by leads. Laptop computers were relatively crude and heavy, and the advent of the iPad and the tablet almost unimaginable.

**Tories help out Sky**

Meanwhile television was still for the most part very much in analogue mode, with some viewers (though not all because of the signal strength) beginning to receive Channel 5 in addition to the other four regular network channel programmes. Rupert Murdoch’s Sky platform took advantage of the Tory government’s generous arrangements to dominate the new field of satellite broadcasting, subsuming its main rival British Satellite Broadcasting (BSB) at the start of the 1990s.

Scandalously, although BBC programmes continue to be among the most popular with viewers on Sky’s platform, the licence fee payer has been required to subsidise Murdoch’s profits in the form of the retransmission fees that the BBC has to pay Sky for the privilege of

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In 2008 a basic phone line rental with BT cost £11.50. In 2015 it will cost £16.99, an increase of 47%
having its content carried. Meanwhile, the launch of the Ondigital service (which would ultimately face a financial crisis and go into administration) was only just around the corner. But its set-top boxes, and those of the cable TV pioneers, were initially only available as part of a “pay-TV” model, meaning that the explosion of choice offered in the digital world was still unfamiliar to most viewers.

**Public sector innovates, private sector profits**

The communications landscape has changed utterly since then, and with it has come an increasing range of commodified services that consumers need to fork out for if they are not to experience “digital exclusion”. Prior to this the key telecoms and media expenses of most households were covered by the cost of a telephone landline and a TV licence – which, prior to the privatisation of British Telecom in 1984, were both paid to publicly owned companies that could reinvest revenues in improving services. It is far from the case that privatisation delivered rapid progress.

In fact the most significant innovations in the communications revolutions have their origin in research and development carried out in the public sector, then private profiteers were allowed to cash in on these breakthroughs. As economics professor Mariana Mazzucato observes in her important study *The Entrepreneurial State*, key advances like the creation of the internet, touchscreen technology and GPS location-tracking arose from research and development funded by the state in the context of defence and military priorities. But having paid once through our taxes to foster such innovations, we are now stung again since it has been left to profit-hungry private corporations to exploit the subsequent take-up.

**BT’s private monopoly**

The new private shareholders of BT – who inherited what was in effect a monopoly position – were allowed to exploit their early head start. Of the 25 million residential landlines in the UK, BT still remains by far the largest provider, enjoying a market share 25% greater than its nearest competitor Virgin Media. Is this because BT offers the best value for money? Hardly.
Back in 2008 a basic phone line rental with BT cost £11.50. Next year, it will cost £16.99 (over £200 a year, excluding call costs or broadband services), a percentage increase of around 47% Many phone and internet services will be going up by 6.49% next year, four times the rate of inflation. The 1571 answerphone service, which used to be free, now costs £22.20 per year on top of the line rental.

For an increasing number of people, now that mobile phone contracts come with contracts with inclusive minutes, the landline is retained only for broadband access rather than for making calls. But BT’s original near-monopoly on landline contracts has handed it a big advantage when it comes to fixed broadband provision, with more than 3 in 10 consumers remaining with BT for their internet access. However, despite their competitive advantage, BT had been slow to roll out the infrastructure for to extent super-fast broadband access to rural communities, since to do so might not be profitable. This has meant that over 5.3 million premises have lacked access to fast broadband access, leaving rural consumers and businesses alike still suffering with what used to be dubbed “world-wide wait”.

Recognising the problem, the coalition government promised a £1.2 billion subsidy to remedy the situation. The influential public accounts select committee of MPs was highly critical of the way this was handled: out of 44 contracts with local bodies subsidised by the taxpayer to ensure that coverage was extended to rural areas, BT was ultimately awarded all 44. So much for competition! BT was allowed to abuse its position as the main provider of telecoms infrastructure, and the coverage maps of existing provision were not disclosed so rival bidders could compete.

Digital exclusion

Rural communities are not alone in suffering from the effects of “digital exclusion”. While the phenomenon of the “silver surfer” of digitally-savvy pensioners is now firmly established and growing all the time, ONS figures show that 5.7 million of the 10 million Britons over 65 have never used the internet. In a survey for the internet provider Plusnet, 41% of those older people without internet access cited lack of understanding and inadequate training as the main reason. However, ONS figures show that 13% of households of all ages without access cite the cost of hardware while 12% cite the cost of access.

Unsurprisingly, poorer households are more likely to lack internet access at home – with the e-Learning Foundation highlighting last year that 750,000 school age children are unable to access the internet at home, and 650,000 lack access to a computer. This means that young people from disadvantaged backgrounds are in danger of losing out both educationally and socially, a problem only compounded by the closures of public libraries, even if the advent of relatively affordable tablets and smartphones might help to close this digital gap, with around eight in ten 13-18 year olds now owning such devices.

Wrong tariff rip-off

While not everyone has a smartphone, at least 92% of UK households now use some kind of mobile phone. But are we getting value for money from the mobile providers? Ofcom figures do show that call and data charges have been falling at a time when the roll-out of 3G and 4G technology has improved services significantly. At the same time, however, UK consumers are reported to spend £5 billion too much for the mobile services they use, owing to being on the wrong tariff. Around seven million different deals are believed to
exist from across the spectrum of mobile operators in the UK. This further undermines the idea that more consumer choice is always a good thing. Very few people have the time or inclination to track down exactly which tariff provides the most accurate fit in meeting our specific patterns of call usage or data consumption, and to swap and change when either our behaviour or the terms of the contract change.

**No signal misery**

The needless fragmentation and profit-driven competition between private mobile phone networks also limits network coverage, since each of the operators has no incentive to share access to its signal masts. The result is that the frustration of having “no bars” and being unable to make or receive calls is experienced more than is technically necessary. Some customers found they couldn’t be released from their contracts even though they couldn’t receive a signal for much of the time. As Dr Oliver Holland of King’s College London’s Centre for Telecommunications Research has argued:

> Each mobile phone company is allotted a slice of the frequency spectrum. But at any given time, lots of customers belonging to one company may be using their mobile phones. “You will probably have a reduction in the quality of the service, because they’re all competing for the spectrum.” Customers belonging to another company may be using the service less at the same time, leaving their slice of the spectrum to go to waste when others need it. “If you had just one body, instead of dividing the spectrum into chunks, they can use it more efficiently,” he says.

As Owen Jones has argued recently:

> The case for nationalising mobile phone companies is actually pretty overwhelming. It would mean an integrated network, with masts serving customers on the basis of need, rather than subordinating the needs of users to the needs of shareholders. Profits could be reinvested in research and development, as well as developing effective customer services. Rip-off practices could be eradicated.

**Costly calls**

And there are plenty such practices to eliminate. Citizens Advice received over 28,000 complaints about mobile phone companies last year alone. One major problem is that our mobile bills are often higher than the nominal monthly rate of our contracts, either because we exceed our allowances, or make calls to numbers beginning 0870, 0844 or 0845 which are not deemed inclusive calls. These numbers – widely used by businesses and also by public sector bodies – can cost up to 40p per minute. 63% of calls made to all government departments used such numbers, including calls to Jobcentre Plus, the Department of Work and Pensions, and HMRC. Even people in debt phoning Citizens Advice itself have been charged at these high rates. Worse still, directory enquiries numbers beginning 118 are premium rate services and can cost as much as £3 per minute on mobiles.

But the phenomenon of “bill shock” is not confined to excessive call charges. One of the most common reasons for unexpectedly high bills is the extra charges levied by phone
companies in other countries (especially outside the EU) in cases where an agreement has not been made in advance with a UK provider. Call charges can be up to £1.50 per minute, whilst the cost of accessing the internet via “data roaming” abroad can mount up into hundreds or even thousands of pounds, leaving people with a nasty shock when they get home.

Commodifying play

The trend to commodify aspects of mobile phone games via “in-app purchases” has also meant that parents are increasingly in danger of finding their children have run up vast bills from playing simple games on their phones and tablets, paying to “buy” extra lives, make different moves, get better tools or reach different levels of the game. One dad reported that his two children, 6 and 8, had together run up a bill of £3,200 buying virtual food for their farm animals, spending “cash” that had a value that was all too real.

New platforms

Notwithstanding the legitimate concern of workers in the creative industries that their rights over their own work are being undermined, such is the ease with which images, music and e-books can be illegally reproduced or shared, it is also the case that there has been an explosion in platforms for paid-for content to be legally accessed. Today’s consumer can pay to download millions of songs from iTunes or to stream them via a service like Spotify, and purchase and immediately access a vast array of books published anywhere in the world – although were it not for the inevitable resistance of the profiteers, a publicly-owned platform for digital content could allow us to “borrow” access to such a vast array of materials for free on a temporary basis, similar to the public lending library but on a colossal scale.

The world of TV on-demand – BBC iPlayer and similar services – means that we are witnessing an increasingly rapid convergence between media, so that television is no longer just a box in the corner of the living room (or flatscreen on the wall for that matter), but something consumed on the go, on tablets or phones. BT, for example, is moving from providing broadband access to providing subscription TV and online content with its new BT Sport channel.

Similarly, traditional “linear” TV channels are facing increasing competition from the streaming on-demand services, including paid content like big Hollywood movies and UK consumers are reported to spend £5 billion too much for the mobile services they use, owing to being on the wrong tariff

£5 billion wasted
premium US television programmes via services like Netflix. If the DVD box set began to accustom viewers to paying to watch favourite TV series then the likes of Netflix goes one stage further and begins to normalise the idea of paying to discover new programmes, shopping around for the latest “must-see”. The danger of this model is the erosion of public and even commercially operated “free-to-air” broadcasting (such as ITV) in favour of premium content being put behind a paywall.

**BBC – value for money**

There are already calls by those trying to undermine the public service broadcasting ethos of the BBC that we should scrap the TV licence fee and force the BBC to compete on the lines of commercial subscription operators. The BBC has certainly had its fair share of problems of late but – despite the cuts that have resulted from a poorly negotiated licence fee settlement, the internal culture of bullying and abuse and its remote, over-paid and top-heavy managerial regime, all of which must be urgently addressed – the public still greatly values BBC programming and has no appetite for it to be destroyed. In fact, at around 40p a day the BBC is one of the few areas of national life where we don’t feel ripped off – it’s a bargain.

At the same time that it has cost us less in real terms, the fee now pays for so much
more than the two high-quality entertainment channels, a network of local radio stations and four national radio stations – we now have BBC3 (regrettably scheduled to become digital-only) and BBC4, BBC News Channel, one of the country’s most popular websites, TV and radio on demand via the BBC iPlayer, digital radio channels such as BBC 6 Music and the Asian Network, news, sport and weather apps and the World Service. And all, for now at least, largely without commercial advertising (although MPs have recently echoed the concern of journalists about the drive towards commercialisation of BBC output on the World Service\textsuperscript{17}). It’s pretty hard to feel ripped off when we get all that for less than the cost of a pint of milk.

In the public interest

One of the major pluses that a national public service broadcaster like the BBC offers is to enable a common series of cultural reference points, with millions of viewers tuning in simultaneously, uniting a diverse range of households into a common viewing community. As BBC director general Tony Hall can rightly boast, “Just one in 25 Americans watched the biggest episode of Breaking Bad on a US subscription channel, compared to one in five of us Brits watching Sherlock on BBC1”\textsuperscript{18}.

Similarly, millions enjoyed British successes at the London Olympics on the Beeb, whilst England’s latest Test Cricket series win could only be glimpsed later on terrestrial TV on Channel 5’s highlights programme or via an expensive satellite subscription. To receive all Sky’s channels would currently cost £948 a year (excluding the cost of installation and Sky Box Office or Sky Store content) and even then to watch all the Premiership football matches you’d need to pay a further £162, taking the total to well into four figures.

For the fanatical sports fan this might still feel worth it. But to abandon the TV licence to turn the BBC into a corporate profiteer running a subscription service in competition with the likes of Sky would be to jeopardise its world-renowned reputation for quality independent public service broadcasting in favour of the more commercially lucrative lowest common denominator. This would also inevitably widen cultural inequalities, and turn the experience of the best television into an exclusive privilege enjoyed by those in a position to afford multiple subscriptions to pay-TV providers.
The change we need

- Defend and reform the BBC as a world-class public service broadcaster, and ensure an above-inflation settlement for the TV licence under the terms of its next Charter renewal – but limit the salaries and pay-offs of senior management so that money is invested in frontline journalism and programming, not executive pay and bureaucracy
- Make commercial subscription services pay re-transmission fees to the BBC for re-broadcasting licence fee funded content
- Ring-fence live broadcasting rights for more high-profile sporting events to free-to-air terrestrial providers
- Ensure that profitable internet-based services or retailers such as Google and Amazon pay their fair share of taxes to the UK exchequer
- Require broadband providers to offer free public wifi access points in all council housing or social housing developments
- Launch a publicly owned “virtual library” platform to allow UK citizens temporary legal access to a wide variety of films, music and e-books as a digital equivalent to the public library
- Provide schools with a bank of laptops and tablets to loan to poorer children whose education might be suffering from lack of internet access
- Prevent mobile phone operators from restricting spectrum usage for their competitors, not only for phone calls but for data, and automatically switch customers to the lowest available tariff matching their monthly usage
- Cap the cost of 0845, 0870 and 0844 numbers when accessed from a mobile to the same level as a landline, and ensure that all advice lines of public bodies use freephone numbers
Tackling rising prices, taken in isolation, is not enough. Take, for instance, the price of food. With food banks on the rise it might be thought a good thing that discounter supermarkets like Aldi and Lidl are prompting a price war and forcing the market leaders to compete. Needless to say, however, corporate bosses and shareholders are not willing to take a hefty hit in terms of lower bonuses and reduced dividends. Instead, to protect their profit margins, the screw is turned on their suppliers, who are pushed to deliver the product to the retailer at the lowest possible cost.

Unless there is some unexpected increase in productivity (e.g. through more efficient machinery) or decrease in the cost of raw materials, then the cost saving can only be delivered by either lowering the quality of the inputs or by undermining the pay and conditions of employees.

Race to the bottom

In fact, we have been seeing both of those responses in the food industry. The “horse meat” scandal of 2013 demonstrated that the suppliers of frozen supermarket ready-meals had mis-labelled meat illicitly and bulked out their product with the cheaper ingredient, which was bought by unknowing consumers. This is a dramatic example and appears to have involved direct criminality. Yet it reflects the extreme end of a more general culture of using cheaper ingredients and production techniques, even if this compromises nutritional quality or leads to deteriorating standards of animal welfare.

Alongside this, we have also witnessed a race to the bottom in terms of pay and conditions in food manufacturing. Take for example the case of RF Brookes pizza and pie factory in South Wigston, Leicestershire. In 2011 the parent company Premier Foods found that its main customer Marks and Spencer had decided to switch a key contract to a competitor, Samworth Brothers, who – it is believed – offered to supply pies for a penny
cheaper. It was reported that four hundred of the 720 employees were immediately made redundant, following which the company was bought out by the 2 Sisters Food Group (whose billionaire chief executive Ranjit Singh Boparan had apparently seen members of his family take a £12 million dividend in 2009¹). The new owners are alleged to have immediately moved in to slash the pay and redundancy terms of the remaining workforce, before the factory was closed down.

**Jobs replaced by unpaid labour**

The pizza work was transferred to 2 Sisters’ Nottingham plant, with an announcement that 100 new jobs were to be created. It later transpired that these were not “jobs” at all, but unpaid workfare positions for unemployed people arranged via Jobcentre Plus, with only the promise of an interview at the end of it². This has not been the end of the process, with Boparan making hundreds more redundancies at Avana Bakeries, Vion and Solway Foods, and the remaining workforce facing pressure to accept low pay and unfavourable terms and conditions lest the company lose work to a competitor. Meanwhile 2 Sisters group saw its sales rise by 35% last year, with Boparan’s reputed personal £1.3 billion fortune³ remarkably unscathed.

Keeping a lid on prices is not an end in itself, especially if it means that the incomes of millions of working households are hit as a consequence. Being able to buy a cheaper pie is not such a good thing if you’re the one getting paid less to make it.

**Structural change is needed**

Much the same is true of Ed Miliband’s pledge to freeze energy prices for two years. While it is not unwelcome, how are we to be sure that the companies won’t offset the cost by hiking up prices in advance, or cut back on levels of investment or staff pay rather than take a hit to their profits? A new regulator would still face intense pressure from the well-resourced lobbying operations of a privately owned energy industry, and would not resolve the basic issue that utilities that should be run for the public good are instead being run according to the demands of private profiteers. Similarly, although we want cheaper train fares, we don’t want this to be at the expense of cuts that undermine safety.

In this booklet we have seen that alongside the deep decline in the value of household

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¹. Ranjit Singh Boparan
². Jobcentre Plus
³. Boparan’s fortune
incomes after housing costs (as discussed in the accompanying report, *The Great Pay Robbery*), there has occurred a significant spike in the cost of a range of essential goods and services. Further, as data from the New Economics Foundation’s *Real Britain Index* suggests, basics such as heating and public transport are rising faster than other items and take up a greater percentage of what low-income households spend than is the case for the wealthy. This suggests that even if wages and benefits kept pace with CPI inflation, the effect would still be a cut in the real value of the incomes for low earners.

**Costs beyond prices**

It should also be remembered that the increased burden austerity has imposed is not felt in purely financial terms. When Cameron points to the overall rise in the number of jobs in the economy, he neglects to say how many are part-time and low-paid, with people increasingly forced to take hold down two or even more jobs. More of us are working unpaid overtime too. According to TUC figures:

> over 5.4 million workers are putting in around £640 million worth of unpaid hours every week... [the number] regularly doing unpaid hours at work increased by 331,000 last year to 5.42m – the biggest annual rise since comparable records began in 1998. The proportion of people doing unpaid overtime is at its highest-ever level (21.2 per cent of the UK workforce), while the average amount of unpaid overtime has also reached a record high of 7 hours 48 minutes a week.

Even when we leave the workplace, we’re having to put in extra unpaid shifts looking after children, or disabled, sick or elderly family or friends. Thus we find ourselves paying for cuts to public services with our available free time. Even where care services are in place, with 60% of councils now introducing 15 minute short care visits the often poorly paid care workers face increased stress and time pressure whilst the care user experiences a level of service that feels cursory and inadequate. Where local facilities like libraries or leisure centres are cut, whole communities lose out, not necessarily in financial terms but in terms of their learning, health and overall quality of life. The cuts to what economists call the “social wage” are a major contribution to the overall pressures on the cost of living, alongside the collapse in real incomes and rising prices of essential goods.

Superficial measures aren’t enough to get us out of this crisis. We need fundamental structural change. It could be objected that the radical action we have outlined is simply too costly to deliver. Yet far from imposing a burden on the taxpayer, much of what is proposed here would liberate significant resources from their current use in subsidising the profits of the rich. There would be no direct cost to the state in ensuring that workers have sufficient legal protections to guarantee collective bargaining power. Strengthening trade union rights would make sure that workers can protect their incomes from being squeezed by the unchecked power of profit-hungry corporations. Instead of taxpayers’ money subsidising profitable employers paying poverty wages, it should protect the benefit incomes of those in need. The housing benefit bill is subsidising fat cat landlords profiting from sky-high rents, when rent controls could keep housing affordable and save money too.
Public need not private profit

Ultimately running services for the public good rather than private profit will also be a more efficient way of spending resources. Why do we waste money subsiding an industry like rail so that shareholders of private corporations can walk off with millions while the travelling public pays more to use overcrowded and unreliable train services? Why do we let so much money get wasted on legal fees, accountants’ fees, and all the rest of the army of bureaucrats needed to prepare endless rounds of franchise bids?

Even a Tory-led government has had to recognise that it is cheaper for a not-for-profit body to be financed through the public sector than via the private market. Far from slashing public spending to make more room for private companies to make a killing, it’s surely time to take back the production of key goods and services into public ownership. On the railways this could be done at next to no cost, by simply taking each expiring franchise back into public ownership and reunifying the whole system when the final private franchise has expired.

A fundamental shift

Ultimately it’s a question of priorities. Whenever it’s a war or a weather emergency in the Tory shires, “money”, as David Cameron once put it, “is no object”. When the banks were judged “too big to fail” we spent billions bailing them out from the consequences of their own greed. So why is it that governments are prepared to fail millions of people across Britain, making us work harder and longer, in jobs that pay less, and have less of a safety net if we lose our jobs, fall ill or become disabled? Why are we paying through the nose for essential goods and services so the mega-rich at the top can make their billions?

It’s not enough to talk about the cost of living. A government that genuinely made acting on the cost of living a priority would scrap the pay freeze in the public sector, encourage wage-led recovery and protect the real value of welfare benefit payments. It would abandon Tory spending limits and invest in jobs and growth. But more, it would need to deliver on a promise first made by Labour over 40 years ago: to “bring about a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families”.

1 http://www.expressandstar.com/business/2014/05/14/from-butchers-boy-to-billionaire/
2 http://www.foodmanufacture.co.uk/Sectors/Chilled-foods/2-Sisters-pizza-factory-creates-100-jobs-to-meet-demand
3 http://www.expressandstar.com/business/2014/05/14/from-butchers-boy-to-billionaire/
4 http://www.bbc.co.uk/news/uk-24424785
TAKE ACTION:

Step Change debt advice
www.stepchange.org

Which? campaign to clean up the credit market
www.which.co.uk/campaigns/money-payday-loans-overdrafts

Fuel Poverty Action
www.fuelpovertyaction.org.uk

No Dash for Gas
www.nodashforgas.org.uk

Campaign Against Climate Change/One Million Climate Jobs
www.climate-change-jobs.org

Action for Rail
www.actionforrail.org

Campaign for Better Transport
www.bettertransport.org.uk

Campaign for Press and Broadcasting Freedom
www.cpbf.org.uk

People’s Assembly Against Austerity
www.thepeoplesassembly.org.uk

We Own It – Public Services for People Not Profit
www.weownit.org.uk
The Trade Union Co-ordinating Group (TUCG) brings together nine national unions (BFAWU, FBU, NAPO, NUJ, NUT, PCS, POA, RMT, and URTU) to co-ordinate campaigning activities in Parliament and beyond.

www.tucg.org.uk

Bakers, Food and Allied Workers Union (BFAWU)
Fire Bridages Union (FBU)
Trade Union and Professional Association for Probation and Family Courts Staff (NAPO)
National Union of Journalists (NUJ)
National Union of Teachers (NUT)
Public and Commercial Services Union (PCS)
Prison Officers Association (POA)
Rail, Maritime and Transport Union (RMT)
United Road Transport Union (URTU)

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