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Introduction

This report tracks changes in the cost of living, particularly for vulnerable and disadvantaged South Australians.

The first part uses the Australian Bureau of Statistics' Selected Living Cost Indexes (ABS, 2015a) and Consumer Price Index (ABS, 2015c) to show key changes in the cost of living in the last quarter and over the last 12 months.

As a summary measure, the Selected Living Cost Indexes are preferred over the better known Consumer Price Index (CPI) because the CPI is technically not a cost of living measure. It tracks changes in the price of a specific basket of goods, but this basket includes goods and services that are not part of the expenditure of all households, and poor households in particular. When considering the cost of living, this is important because if expenditure on bare essentials makes up the vast bulk (or entirety) of expenditure for low income households, then price increases in those areas are crucial whilst price increases or decreases on other discretionary goods are less relevant. However, increases in the prices of bare essentials may be masked in the generic CPI by rises or falls in other goods and services in the CPI basket.

The Selected Living Cost Indexes use a different methodology to CPI (see Explanatory Note 1) and they disaggregate expenditure into a number of different household types (ABS, 2015b), although this *Cost of Living Update* focuses on the "Aged Pension" and "Other government transfer recipient" (hereafter "other welfare recipients") figures, as these are likely to represent the more disadvantaged households. While the Selected Living Cost Indexes also have limitations in tracking cost of living changes for these groups (see Explanatory Note 2), they do provide a robust statistical base, a long time series, and quarterly tracking of changes – all of which is useful data for analysis. This report also adds to the Selected Living Cost Indexes by putting a dollar value on the changes, and by using disaggregated CPI data to summarise change in prices of key items.

The second part of SACOSS *Cost of Living Updates* contain a more in-depth analysis of trends in one key area of concern in relation to cost of living pressures on vulnerable and disadvantaged South Australians. This Update focuses on telecommunications as a utility and a basic necessity for living in a modern society, but one not always associated with cost of living difficulties.

SECTION 1: March Quarter 2015 Cost of Living Changes

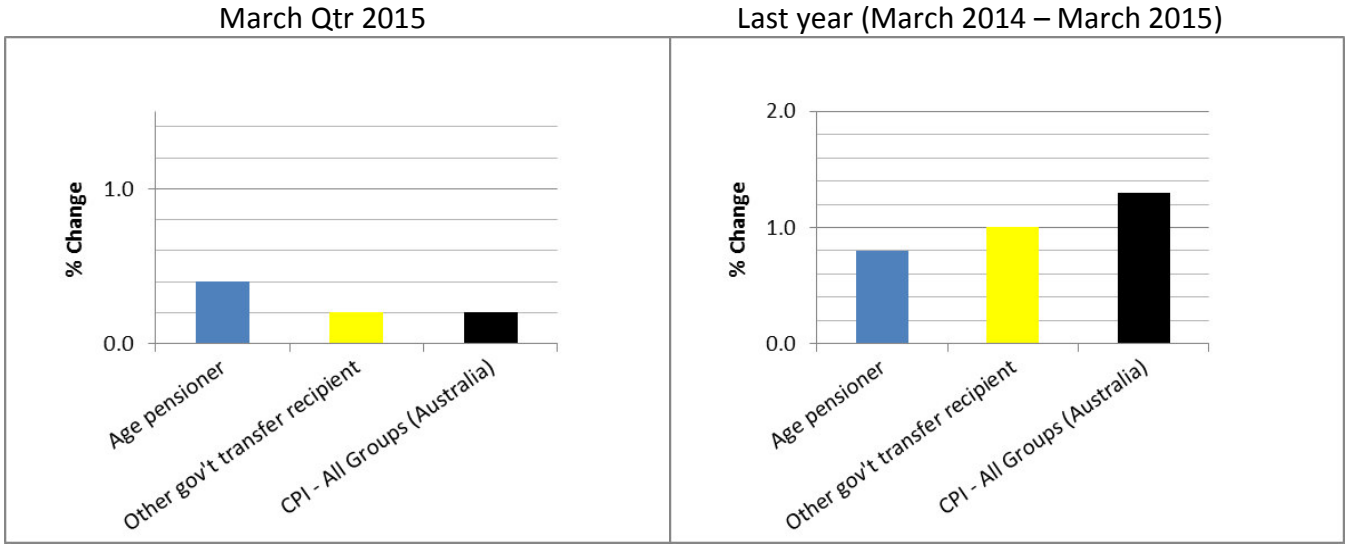
Prices

In the March 2015 quarter, the cost of living (as measured by the ABS Selected Living Cost Indexes) for Aged Pensioners rose by 0.4% and for Other Welfare Recipients by 0.2%. CPI in the same period rose by 0.2% nationally and 0.1% in Adelaide (ABS, 2015a; ABS, 2015c).

The most notable feature of these figures is the increase in pensioner living costs in the March quarter, at twice the rate of CPI. However, this was largely driven by seasonal health costs as Pharmaceutical Benefits Scheme and Medicare Benefit Scheme thresholds were reset in January – meaning that far more consumers are under the thresholds and paying full costs. In turn this pushes pensioner living costs higher as they health costs constitute a greater part of their household budgets. The health costs were off-set in other categories by decreasing petrol prices (which impact less on pensioners).

Over the last year (March Qtr 2014 – March Qtr 2015), the living cost indexes for Aged Pensioners rose by 0.8% and for Other Welfare Recipients by 1.0%, by comparison to the generic CPI rise of 1.1% in Adelaide and 1.3% nationally (ABS, 2015a, 2015c).

Figure 1: Increases in Living Costs March Qtr 2015



These overall figures can be disaggregated to track changes in the price of key basic goods and services in the last quarter both in Adelaide and nationally. These are shown in Table 1 over the page.

The largest increase in prices of basic goods and services was a seasonal increase in electricity, while low international petrol prices drove the decrease in transport costs.

Table 1: Cost of Living Changes March Qtr 2015 by expenditure type

Cost of Living Area	Adelaide CPI March Qtr change %	National CPI March Qtr change %	Adelaide CPI March 2013-March 2014 %	National CPI March 2013–March 2014 %
Food	0.4	0.2	1.6	1.9
Housing	1.8	0.8	3.1	2.7
Rent	0.5	0.4	1.8	2.1
Utilities	4.6	1.6	2.8	-1.8
• Electricity	8.6	1.9	0.5	-3.9
• Water	0.0	-0.3	3.0	-0.7
• Gas	0.0	2.7	8.7	2.9
Health	1.2	2.5	3.9	4.4
Transport	-3.5	-3.4	-6.5	-6.2
CPI All Groups	**0.1**	**0.2**	**1.1**	**1.3**

(Source: ABS, 2014c)

Incomes

Given that welfare recipients have very low incomes, it is unlikely that any or any significant amount of the weekly benefit can be saved – at least for those not able to supplement their government payments with other incomes. For someone on the base level of benefits (with no rent assistance), and assuming that they spend all their income, SACOSS calculates that the dollar value changes in cost of living is as shown in Table 2.

Table 2: Cost of Living Change March Qtr 2014 –March 2015

	Base Allowance + Supplements (31 March 14)	Selected Living Cost Index change	Living Cost Change per week $	Base Allowance + Supplements (31 March 15)	Change in rates of same benefits $	Net Result $pw
Aged Pensioner (Single)	$421.40	0.8%	$3.37	$430.10	$8.70	+$5.33
Newstart with two FTB children	$533.20	1.0%	$5.33	$544.67	$11.47	+$6.14

(Source: Calculated from data in Centrelink, 2014, 2015; ABS, 2014a.
For details of calculation, see Explanatory Note 3 in the Appendix here)

That is to say, for those whose only source of income is a base-rate Aged Pension (with the Energy Supplement) and who spend all their income, the cost of living over the last year increased by $3.37 but this was more than covered by the approximately $8.70 a week increase in their income. Similarly, for a single person on the base rate of Newstart with two children, their cost of living of the last year went up by $5.33 per week while their income only increased by $11.47, leaving them $6.14 a week better off. These results are largely lag effects from previously higher CPI rates and they remain premised on inadequate overall payment rates, particularly in the case of the base level payments like Newstart.

Section 2: Telecommunications

Why Telecommunications Expenditure Matters

In our June 2013, *Cost of Living Update*, SACOSS argued that telecommunications, and most notably phone and internet services, are basic services in a modern society. They provide a platform for a variety of social connections and participation in society from keeping in touch with friends and family, to finding information on current affairs, government services and community events, to shopping, paying bills, accessing government payments and looking for employment (SACOSS, 2013).

In this *Update* we want to expand on that analysis and develop a framework of telecommunication expenditure as an important cost of living pressure because it is:

- Essential;
- Significant; and
- Regressive.

Essential

ABS data (2014a, Table 7) shows that 71% of South Australians accessing the internet at home used it to access government services, 60% to pay bills or bank online and 45% for educational purposes. Obviously most households accessed the internet for multiple purposes including more discretionary recreation like listening to music and watching movies (57%), playing games (31%) and social networking (66%), but it is clear that the internet is a vital link to essential commercial and government services for many households.

In the commercial sphere, there would be both social and economic concerns if the costs of transport services were a disincentive for people travelling to the shops (regardless of whether they were buying food or medicine or less essential goods). With the growth in online shopping and e-commerce, the same concerns should be raised if people are not able to access those particular online shops and services.

In the government sphere, the concern goes beyond simply access to services – and even payments as agencies like Centrelink increasingly direct inquiries, applications and interactions online. One of the key tools for the South Australian government engagement with the community, and the platform through which they seek to consult on policy is the Your Say website (www.yoursay.sa.gov.au). From that website the public can comment on policies as crucial as state taxes, conservation and tourism strategies, and vote for funding of community development projects (all items featured on viewing on 30/4/2015). Given this, there is an increasingly democratic imperative to ensuring access to telecommunications at reasonable prices.

Even in the personal/recreational sphere, access to social networking and popular culture should not be dismissed as flippant or wasteful expenditure as staying socially connected is important to health and wellbeing of people in a community.

It is not surprising then that the landmark study of deprivation indicators by Saunders and Wong (2012, pg 34) showed that in 2010, 34% of the population believed that a mobile phone was essential – (defined as “things that no-one in Australia should have to go without today”). This figure was up from 23% just 4 years earlier, and would probably be higher today.

While not all telecommunications usage may be essential (in the same way that not all electricity or water use is essential), there is little doubt that access to telecommunications is essential to living, working and participating in our society.

Significant

Telecommunications make up a significant component of household expenditure, although reliable data is difficult to get. Telecommunications is not a stand-alone category in the definitive ABS *Household Expenditure Survey* and the last *HES* (2009-10) is becoming increasingly dated – particularly in relation to rapidly changing consumptions like telecommunications. In our 2013 *Update* we estimated (based on the 2009-10 *HES*) that total telecommunication expenditure represented 3.6% of household consumption expenditure. In South Australia the average expenditure was slightly less, but made up a slightly greater proportion of total household expenditure on goods and services (3.8%).

If the 2009-10 expenditure figures were translated into today's money by simply indexing to the generic CPI, telecommunications would equate to an average expenditure of $45 per week in South Australia, and $51 nationally. It should be emphasised that, because of changing expenditure patterns, this is not an estimate of current expenditure, but rather an expression of the 2009-10 data in current dollar values. However, the order of magnitude clearly suggests that telecommunications is a significant weekly expenditure.

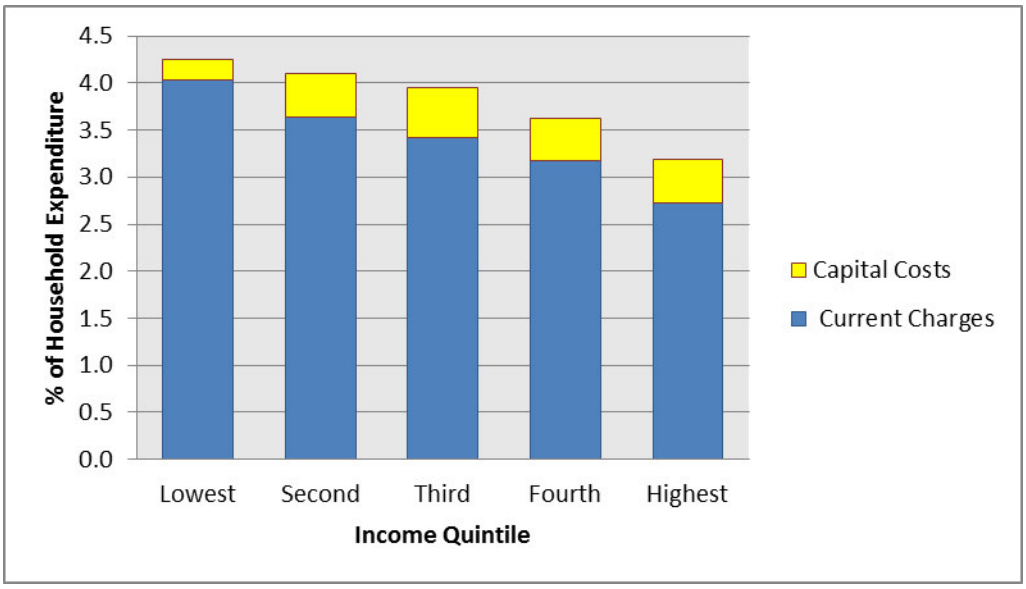
The significance of telecommunications expenditure can be further seen from the fact that at the time of the last *HES,* the telecommunications expenditure noted above would have accounted for more of the weekly household budget than domestic fuel and power (ie. electricity and gas) (SACOSS, 2013). Obviously there have been major price and expenditure changes since then (the telecommunications changes are tracked below), but like those other utilities, telecommunications bills often involve complex lock-in contracts and may also be lumpy expenditure which is hard to predict and budget for.

For all these reasons, it is clear that telecommunications expenditure is a significant part of the household budget and so any increases in price or expenditure would be a substantial cost of living pressure.

Regressive

Expenditure on telecommunications is also regressive in that households with lower incomes spend proportionately more on telecommunications than higher income households. Figure 2 shows the national figures using SACOSS' calculations from the 2009-10 *HES*. What is noticeable apart from the proportionately higher overall expenditure for lower income households is that this is more marked in relation to current charges than overall expenditure. Higher income households spent proportionately more on the devices and platforms than lower income households, although the overall expenditure is still regressive overall. This translates to lower income households spending proportionately more on telecommunications than higher income households but having cheaper/lower standard equipment (Again, for more information, see SACOSS, 2013).

Figure 2: Telecommunications Expenditure by Income Quintile (Australia)



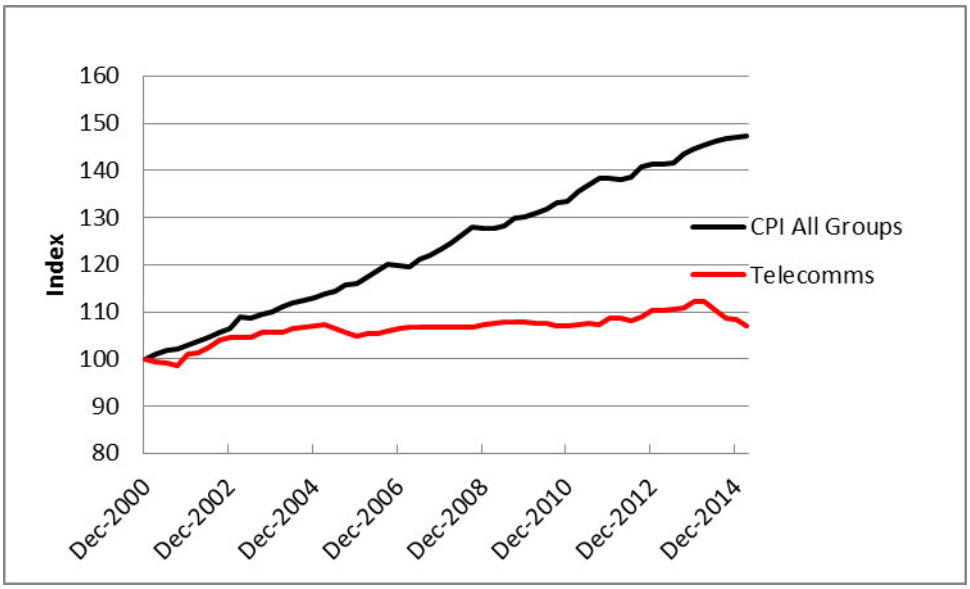
(Source: SACOSS, 2013)

Prices and Expenditure

Prices

The data above suggests that telecommunications expenditure is, like other utilities, an essential, significant but regressive household expenditure. However, as Figure 3 shows, unlike electricity, gas and water prices, prices for telephones and internet services have not been rising rapidly.

Figure 3: Telecommunication Prices - Adelaide



(Source: Derived from ABS, 2015c)

The figures are similar at the national level and show only a small increase in prices over the last 15 years – just 6.9% in Adelaide. More importantly, the price increases are well below the average inflation rate which has seen prices rise by 47% in the same period. Assuming that wages at least kept track with CPI, this represents a significant decrease in real prices for telecommunications.

Further, as the dipping red line above shows, in the last 5 quarters telecommunications prices have decreased both absolutely and in real terms.

Australian Competition and Consumer Commission data suggests that in 2013-14 real prices for:

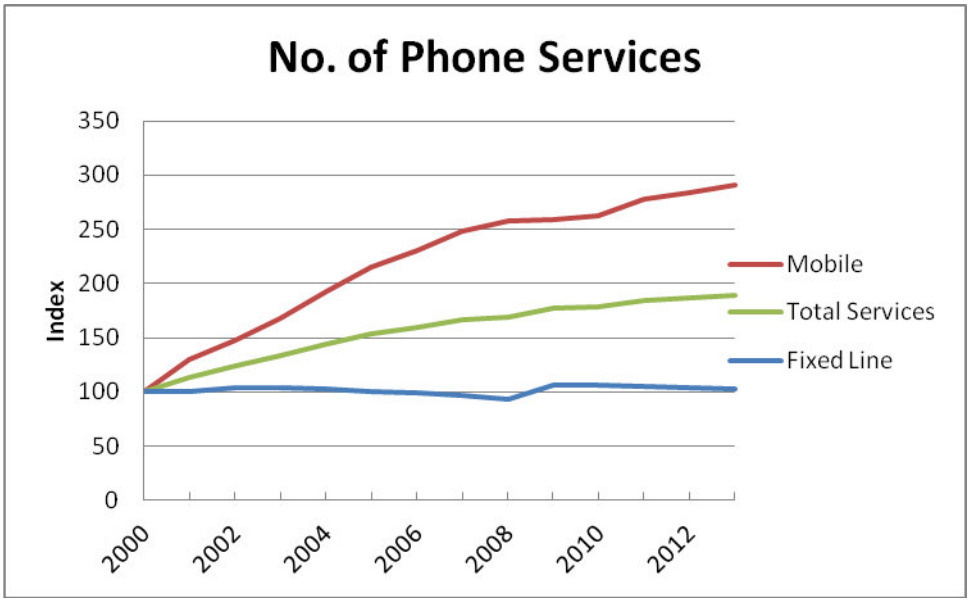
- fixed voice services decreased by 5.2%;
- mobile phone services decreased by 2.0%; and
- internet services decreased by 2.2 per cent (ACCC, 2014, p. 77).

Clearly this is good news for consumers, and distinguishes telecommunications from other utilities which have seen massive price rises in recent years. However, price is only one part of the household budget equation.

Impact on Household Budget

Over the same period that telecommunication prices have been going down (in real terms), technological innovation and cultural change has driven a massive increase in demand and consumption of telecommunications – both hardware and services. In 2000, there were a total of 18.6m mobile and landline services in Australia, but by 2013 the number had almost doubled to 35.3m. Figure 4 shows this trajectory (as an index) and highlights the fact that this growth has been almost entirely driven by mobile phone services which have almost tripled to a current level of 24.9m services in 2013. By comparison, the number of fixed line services has remained steady at around 10m services.

Figure 4: Telecommunication Usage – Phone Services

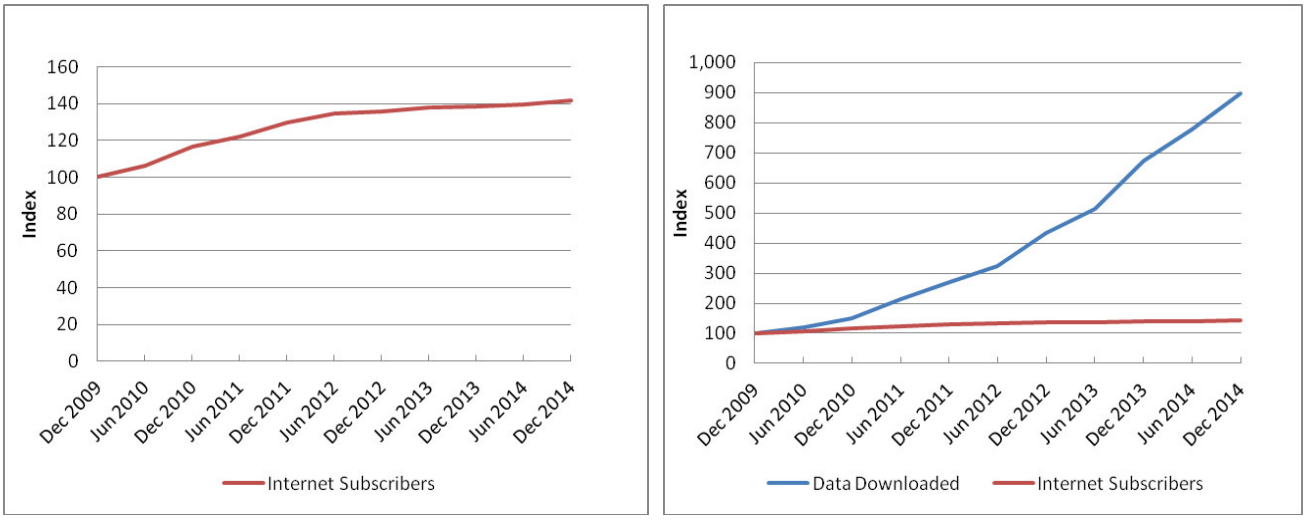


(Source: Derived from ITU, 2015)

There is a similar story in relation to internet services. In 2013, 83% of Australian households had access to the internet, up from just 46.7% at the turn of the century (ITU, 2015). This trend is confirmed by the ABS internet usage data shown in Figure 5. The graph on the left shows the rate of increase in number of internet subscribers over the last five years – a 41% increase in that period, although the rate of increase has slowed in the last few years. However, this increase is dwarfed by the increases in the amount of data downloaded in that period shown in the graph on the left (noting that the red line is the same in both graphs). This eightfold increase in data

downloads in just five years is truly phenomenal growth and suggests a massive increase in telecommunications usage – not just in the numbers of those with services, but in the amount that those consumers are using the services.

Figure 5: Telecommunication Usage – Internet



(Source: Derived from ABS, 2015d)

This rapid increase in internet usage has been driven by (and in turn facilitated) the increasing number and integration of telecommunication platforms, which has itself driven new telecommunications expenditures on ever smarter phones, tablets, etc.

Overall, it is clear that there has been a massive increase in consumption of telecommunications, but it is less clear whether this increase in volume has outweighed the decrease in prices in terms of net impact on household budgets. The complexity of contracts, packages and usage patterns mean that simply weighting the indexes may not be the most reliable of estimates – let alone trying to disaggregate this in terms of incomes quintiles or different household types. The next *Household Expenditure Survey* will give us the best and most comparable data on household expenditures on telecommunications.

For the purposes of this report though, it is safe to assume that despite falling prices, telecommunications continue to be a significant household expenditure which could impact on cost of living pressures. This is certainly the case with those on the lowest incomes, with Anglicare Victoria's Hardship Survey reporting that over half of the clients sampled had difficulty paying a telecommunications bill in the previous year. Almost one in five clients found a home phone "very unaffordable" and just over one in 8 found mobile phone services "very unaffordable" (Wise, 2013, p 13-14).

More broadly though, given decreasing prices the cost of living pressures are less likely to be about general price-levels and more likely to be about specific issues that relate to the key features telecommunications expenditure. The remainder of this report therefore focuses on these specific issues as set out in the tale below.

Table 3: Telecommunication Features and Issues

Feature	Issue	Example
Essential	Access Costs	Connection Fees, Lock-in Contracts
Significant	Bill Shock	Excess Usage Charges
Regressive	Premiums on Poverty	Regressive Rates, Penalties for late payments

Key Issues

Access Costs

Given that telecommunications are an essential service, then any prices, fees or charges that block or discourage access to the service are clearly a problem for access to services, and/or a cost of living pressure for those seeking to maintain those services. As with other utilities like electricity, gas and water, there have been traditional access and supply charges for the ability to use telecommunications. Traditionally these were the connection fee charged for new landline connections and monthly line rental charges.

Telstra currently charges between $59 and $299 for new connections (depending on the amount of work and whether a technician visit is required), while Optus has no connection fees (assuming the hardware connections are all ready to go). Mobile phones generally do not have the upfront connection fees, although the lock-in contracts on many mobile plans may provide a barrier to access for some consumers.

Line rental fees charged as monthly supply charges are no longer charged as a separate billable item, but are embedded into monthly contracts. As such, they will be considered below in the broader discussion of regressive charging structures.

The other major issue in access fees and charges is the hardware required to use telecommunications. As noted above, the type and number of telecommunications hardware devices have multiplied over recent years with many households having landlines (handset), mobile phones (for each person), as well as personal computer(s), tablet(s) and more. All these obviously cost money and are an equivalent of an upfront fee to access telecommunications. It is not surprising that those on very low incomes often can't afford multiple platforms, as evidenced by that the fact that 45% of Anglicare clients surveyed had only one telecommunications device (Wise, 2013, p 11).

It is not possible with existing ABS data to track changes in costs of telecommunications hardware. Beyond the issues of technological change making comparisons across time difficult, most (but not all) telecommunication hardware is rolled into the generic CPI category of "telecommunications equipment and services". As noted above, prices in this CPI bundle have decreased in real terms in recent years (possibly outweighed by increased expenditure), but it is also important to note that in many cases upfront hardware costs are rolled into service plans so the hardware is paid off over time. In terms of accessibility, this is probably preferable to up front costs but it does then invite further consideration of the structure of the monthly fees to see their impact on cost of living of vulnerable and disadvantaged households.

Regressive rates and Poverty Premiums

Upfront connection fees, supply charges and basic hardware costs tend to be regressive in that they account for a greater proportion of expenditure of low income households than for those with higher incomes. However, an analysis of some standard telecommunication prices and charges shows that the upfront costs are not the only regressive aspects of the pricing structure.

SACOSS analysed various phone and data plans provided by major telecommunications providers. The purpose was not to compare companies or to suggest best plans for low income consumers. Indeed any such exercise would be difficult because of numbers of different packages and offers available with potential different thresholds for charges, special services (such as free calls to particular numbers) and discounts for bundling services. These may all impact on the actual costs to consumers and make straight price comparisons difficult. Further, SACOSS does not have the resources to compare all firms and all plans, so we chose just a few examples (from better-known companies) to identify particular *structural issues*, and then checked other providers to see if those structures were represented elsewhere.

Table 4 shows the prices (at the lower end of monthly expenditure) for one company's pre-paid (SIM only) plans. Given our intention and methodology, we have not named the companies or plans offered as that would distract from the structural issues we want to highlight, and again, the structures were observed in a number (but not all) other companies examined.

Table 4: Example of Pre-paid (SIM only) Plans

Company 1 – Prepaid SIM only		
Monthly Spend	**Value of Services**	**Value per $1 spend**
$20	$20	$1
$30	$250	$8
$40	$550	$14
$50	$1,000	$20

(Source: Derived from http://www.whistleout.com.au/ and company website and Critical Information Summaries)

The first thing to note about this price structure is that (despite the actual call rates [$ per minute] or data download rates being the same across all plans) the more you purchase, the cheaper the rate becomes – by virtue of getting greater value of services for each dollar spent. This type of "discount for bulk purchasing" pricing structure is a very typical retail practice, but it does mean that there is "premium on poverty" in that those with limited expenditure ability and who may try to constrain consumption to save money are paying much higher effective rates for the same services (ie. phone calls or data downloads).

The second thing to note in Table 4 is that the lowest level plan provides almost no call value. For that value, the consumer may only be able to make three or four 5-minute calls per month – basically an incoming-call or emergency-use only phone. Further, if a $50 spend gets you $20 of value per $1 spent (and presumably the company is still making a profit at this rate), then the cost of those $20 of services must be less than a dollar. Accordingly, on the lowest plan the cost of those services is $1, so the remaining $19 can be seen as equivalent to a service charge. The maths here is superficial, and the intention is not to expose some malicious charge (obviously there are

costs of servicing a customer and an account). The point is simply that there is a basic service charge built in to these mobile phone rates. There is, in a sense, a cost of simply being connected to the network, even if that connection is not used or it is only used to receive calls that other people are paying for.

This "service charge" structure can also be seen in the fact even these "pay as you go" or pre-paid services expire after a certain period. You will pay the monthly fee even if you don't use the phone at all, which suggests that what is being charged for is not calls made but having access to the network (and a certain amount of calls). If there were no service fee involved, you would simply purchase an amount of services to be used at your leisure and remain connected until you had used this value of calls. In theory this would mean you could pay $20 and *receive* endless numbers of calls forever. This is clearly not a sustainable business model, but it does suggest that what is being charged for is access to the network plus a certain amount of usage, not simply the cost of making the calls.

When considered in this light, telecommunications pricing structure begins to look more like other utilities pricings with a basic service fee and then user-pays charges on top of that. The problem with such structures is that such supply charges tend to be regressive because they are flat rate applied to all customers. This inevitably impacts on those on low incomes proportionately harder, and further, it limits the amount of cost savings possible from people trying to be frugal and limiting consumption. In telecommunications the structure is a bit different in that arguably those with higher monthly spend packages may not use all their value (and therefore pay a higher "supply price"). However, it is not clear how much of such expenditure should be regarded as a supply charge (and how much as simply wasteful expenditure). Either way though, it should not distract from the basic point that there is an in-built supply charge in the pricing structure and, as will be argued further below, this has implications for equity and support.

Before going on to that though, it is worth considering another issue in pricing structures which impact on vulnerable and disadvantaged consumers. Table 5 has a price structure from another company and includes a comparison of pre-paid and post-paid plans.

Table 5: Example of Pre and Post-paid (SIM only) Plans

Company 2 –Pre-paid v Monthly Contract				
Monthly Spend	**Prepaid Value of Services**	**Value per $1 spend**	**Monthly Post-paid Contract Value**	**Value per $1 spend**
$19-20	100	$5	$250	$12.5
$29-30	450	$16	$450	$15
$49-50	$900	$18	Unlimited	
$79	$1,500	$19		
$99	$1,859	$19		

(Source: Derived from http://www.whistleout.com.au/ and company website and Critical Information Summaries)

In relation to the pre-paid plans, the same "discount for bulk purchase" pricing is evident as it was in the other company's price structure in Table 4, and there is also an element of a supply charge at the lowest rate – but not nearly as pronounced as in the first example. However, they key thing

in Table 5 is the comparison between pre and post-paid plans. Again, the charging rates per minute of call or per MB of data downloaded appeared to be largely the same between pre-paid and post-paid plans, but the amount of value differs substantially (although not linearly). At the $19/20 expenditure, the post-paid plan is offering more than double the value of the pre-paid plan. While the value is the same at the $29/30 mark, above that monthly spend in the post-paid contracts allows for unlimited calls. In effect this means that someone on the $50 post-paid monthly contract could make more calls than the person on the $99 pre-paid contract.

These differences are important because they can often translate into a "premium on poverty". Those without a fixed address, credit or bank facilities, or without a regular income, may be unwilling (in the case of precarious income) or unable (in the case of poor credit records) to enter into a post-paid contract – particularly contracts that have long lock-in periods. As a result, many vulnerable and disadvantaged people use pre-paid phones as the best or only option available. In the Anglicare survey, some 73% of clients who had a mobile phone were on pre-paid accounts (Wise, 2013, p 13). This potentially allows greater access and control over expenditure, but as is evident from Table 5, those on pre-paid plans are often getting less value for money – effectively paying more for the services than they would if they could easily access the post-paid plans.

Late Payment Fees and Other Charges

Apart from the regressive supply-type charges and poverty premiums in the pricing structure, there are a number of specific fees and charges which put premiums on poverty and can add to cost pressures on vulnerable and disadvantaged households. Late payment fees are the most obvious example in that late payment may be the result of an inability to pay on time. Even if late payment is simply a product of forgetfulness or laziness, the flat rate nature of the fee will impact proportionately more on lower income households. The same is true for charges for dishonoured cheques or insufficient funds, while disconnection fees can also be huge disincentive to find a better deal.

Beyond late fees, some companies have more "inventive" fees. A Critical Information Summary for one plan examined by SACOSS had fees of $2.20 fee for providing a paper invoice, and a further $2.20 fee if the account was not paid by direct debit. On a $22 a month contract, such payment fees represent a significant extra expenditure (20%).

Again, such fees are more likely to fall on or be a problem for low income households.

Bill Shock: Excess Usage Charges

As argued earlier, telecommunications is a significant part of household expenditure, and made more problematic as a cost of living pressure by the fact that the bills tend to be large, lumpy expenditures which are hard to track or predict. Obviously this is less the case with a monthly contract payment – provided the usage cap is not exceeded. However, charges for excess usage have emerged as a particular pressure, precisely because they replicate the pattern evident in other utilities of "bill shock": large unexpected expenditures which can cause problems for those with limited room to move in tight household budgets.

Excess use charges were the most common cause of complaint to Telecommunications Ombudsman's Office in 2013-14 and often involved significant amounts of money. Half of all the complaints were for amounts in excess of $440, with 63 cases involving amounts of more than $10,000, though these figures obviously include businesses as well as households (TIO, 2014, p 7).

The importance and adverse impact of excess usage charges has been recognised by the telecommunications industry and consumer advocates, and measures have been put in place to limit the "bill shock" potential arising from excess usage. The Telecommunications Consumer Protection Code (s6.5.2) that came into effect from September 2013 dealing with excess data usage mandates that customers be provided with Spend Management Tools (see box below)(Communications Alliance, 2012). These are designed to inform customers in a timely fashion of their usage and to notify when they are about to use their ordinary allocation. This approach is in contrast with, for instance, applying caps on the amount that can be charged in excess data charges in any period. In this sense, the Code aims for an informed rather than a regulated market and the effectiveness of the code assumes or requires a level of financial/telecommunication literacy on the part of the customer.

Spend Management Tools
Telecommunications Customer Protection Code, s6.5.2

… a Supplier must provide an electronic notification to that Post-Paid Service no later than 48 hours after the Customer has reached the following point each month:

(d) 50% of the expenditure and/or the data allowance which forms part of the included value in their plan …;

(e) 85% of the expenditure and/or the data allowance which forms part of the included value in their plan …;

(f) 100% of the expenditure and/or the data allowance which forms part of the included value in their plan …

and the Supplier must also inform the Residential Customer at the time of sending the 100% notification of the following information, …:

(g) the Charges applying once 100% of the included value or data allowance has been used;

(h) that the information in the above notification may be up to 48 hours old; and

(i) that the notification does not include calls or SMS to overseas or usage outside Australia.

While these mandatory notifications at 50%, 85% and 100% of allowance usage are welcome, there is a significant time lag of 48 hours in which period considerable excess usage charges could be incurred. Further, there are some services outside of the mandatory notification (eg. overseas usage), so there is still potential for significant bill shock. However, some of the major telecommunication companies have gone beyond these mandatory minimum notifications. Some are advertising real-time usage data, and some are now offering upgrades or extra packages (about $10 for 1GB extra) once the data limit is reached. These measures would obviously further limit bill-shock and are a welcome market change.

However, most of these schemes are opt-in and if the consumer does not opt-in they face standard excess usage rates. The contrast is marked: the opt-in upgrades/packages are usually around $10 for 1GB extra, while the standard excess usage rate could cost up to an additional $70 for the extra 1GB (depending on what company or scheme)(ACCAN, 2015a).

It is also important to note that, like the regulatory code, these schemes are still predicated on a model of informed decision-making and a sufficient level of customer literacy. They do not involve

more direct non-price signals used overseas to avoid excess data usage such as throttling download speeds (Hanlon, 2014) or charging caps (Donnelly, 2012).

Nevertheless, in many cases the market appears ahead of the regulatory code's information requirements, and the good news is that in the last six months, the Telecommunications Industry Ombudsman has reported a drop in the number of all complaints lodged (TIO, 2015). Given that excess usage charges were the most common complaint, this suggests that the measures in the code and the market responses have made some impact on the issue of excess usage charges. However, given the complexity of telecommunications contract arrangements, there will inevitably be a significant group without the financial or telecommunications literacy to make economic rationalising decisions envisaged by the market remedies. Accordingly, there is likely to remain a residual of vulnerable consumers for whom excess data will continue to drive bill shock and payment problems.

The Telecommunications Market

The above discussion of telecommunications highlights some key things about the telecommunications market. First and most obviously, it has delivered an increasing array of services and devices with decreasing real prices. However, the focus on key issues in relation to cost of living pressures suggests that there are problems which need to be addressed, particularly in terms of premiums on poverty and bill shock. It is also important to understand that these problems are not simply market failures which can or will be addressed by a freer or more fully informed market.

The poverty premiums in regressive price structures are not market failures, they are the result of businesses making rational market decisions to encourage consumption (growing the market) and capturing or retaining larger customers. As noted above, discounts for bulk purchases happen in all sorts of markets, but when it comes to services like telecommunications where a core amount of expenditure is essential for living in a modern society, it inevitably puts a premium on poverty because the rates for that core amount are higher than for those who can afford to spend much more.

Similarly, building a supply-type charge into the pricing structure makes sense for businesses needing to cover costs, but will inevitably be a regressive charge impacting more on low income households – particularly when combined with the decreasing rate structures.

To assume that these telecommunication issues like poverty premiums will be addressed by the market and better information misunderstands the nature and role of the market. Markets in general are about the efficient allocation of resources, not necessarily about fairness and equity. And yet, as evident above, in relation to excess data charges what we see is a set of remedies built largely around trying to "perfect" the market by creating the model customer of neoclassical economic theory who acts in full knowledge and lives life according to an economic calculus. However, in the flawed human world, the more direct non-market interventions may be more useful for limiting bill-shock than the market mechanisms based on an all-knowing consumer.

Once we move beyond narrow market-based solutions to the issues raised above, there may be other avenues of support for vulnerable and disadvantaged consumers which can sit alongside the market protections and mechanisms. Direct capping of excess use charges or throttling of service speed may be examples in relation to excess usage, but more broadly the analysis above also

suggests the need for a fundamental re-thinking of concessions and support payments for telecommunications.

Concessions and Support Payments

If it is the case that, like other utilities such as energy and water, telecommunications is an essential service, and accounts for a significant amount of household expenditure (and is regressive in its impact on the household budget), and if it is the case that the price structure also reflect other utilities in having a supply charge for accessing the essential service, then perhaps it is time to look at the development of telecommunications concessions similar to those that apply for water and electricity. Those concessions are designed to ensure that low income households have access to basic services.

In South Australia the energy concession is up to $215 per year, while the water concession refunds 30% of the water bill. Given telecommunications falls within the jurisdiction of the Commonwealth, a concession scheme would rightly fall to the federal government, but it is currently a gaping hole in the welfare safety net.

The logic of Commonwealth government supporting access to telecommunications is already established in a "Telephone Allowance" that is paid to certain Centrelink payment recipients to assist with the cost of maintaining a telephone and home internet service. The Centrelink *Guide* is clear that it is about access and is not paid to assist with the cost of telephone calls (Centrelink, 2015). It is also not available to all Centrelink recipients and there are a complex set of rules around entitlement. It is payable to those on the Disability Support Pension under 21 years without children and they receive a higher rate of allowance. The regular Telephone Allowance is rolled into the Aged Pension Supplement, and is also paid to single parents in receipt of parenting payments, but not to those on the partnered rate (unless they have partial disability or are over 60). Most curiously, it is not available to those on the poorest payments such as Newstart and Youth Allowance unless they have dependent children, are over 60 or have a limited capacity to work. Similarly, it is only available to those on Widow's Payment, Partner Allowance or Special Benefits unless the relevant person is over 60 (DHS, 2015).

Underlying this rather labyrinthine arrangement is an apparent notion that telecommunications are only essential where there are children or someone with disability – basically a view of emergency rather than essential services. This not only excludes some of the poorest in our community who might need phone and internet services (for instance, for job seeking or other support services), it flies in the face of Centrelink's own moves to deal with these 'clients' by electronic means. More generally though, this "emergency service" model fails to understand or address the increased importance of telecommunications to all aspects of life in a modern society.

This anachronistic approach is further evident in that the Telephone Allowance applies only to telephone subscribers – ie. land lines. It does not apply to mobile phones, and certainly not the pre-paid phones which are often the resort of those with limited finances.

The adequacy of the Telephone Allowance (currently $27.20 per quarter) is hard to assess without clearer data on telecommunications expenditure by low income and Centrelink-supported households, but clearly the framework for the allowance and the subsequent eligibility criteria has not kept pace with changing technology and community expectations. It is therefore the primary recommendation of this report that there needs to be a re-think of the Telephone Allowance and

a move to a more comprehensive telecommunications concession which reflects the essential, significant and regressive nature of telecommunications costs and their impact on low income households.

Summary and Conclusion

This report has argued that telecommunications expenditure is an essential and significant part of the household budget – particularly for low income households. While prices have generally declined (in real terms) over recent years, the massive increase in the volume of consumption means that there remain potentially significant cost of living impacts on vulnerable and disadvantaged people. In particular, the key features of telecommunications (essential, significant and regressive) give rise to specific concerns around price barriers to access (in the form of supply-type charges), premiums on poverty based on volume discounting and bill shock from excess data charges.

Importantly, these issues are not market failures, but are the natural working out of market forces. Accordingly, changes to make markets freer and more transparent will only go so far and other measures need to sit alongside those market information approaches to ensure that vulnerable consumers and protected and supported. In particular, a re-think of the existing Telephone Allowance is required and broader concession scheme is needed to ensure that all people can access telecommunications.

APPENDIX: Explanatory Notes

1. CPI and Living Cost Indexes

The ABS Selected Living Cost Indexes uses a different methodology to the CPI in that the CPI is based on acquisition (i.e. the price at the time of acquisition of a product), while the living cost index is based on actual expenditure. This is particularly relevant in relation to housing costs where CPI traces changes in house prices, while the ALCI traces changes in the amount expended each week on housing (e.g. mortgage repayments). Further information is available in the Explanatory Notes to the Selected Living Cost Indexes (ABS, 2013b).

In that sense, the Selected Living Cost Indexes are not a simple disaggregation of CPI and the two are not strictly comparable. However, both indexes are used to measure changes in the cost of living over time (although that is not what CPI was designed for), and given the general usage of the CPI measure and its powerful political and economic status, it is useful to compare the two and highlight the differences for different household types.

2. Limitations of the Selected Living Cost Indexes

The Selected Living Cost Indexes are more nuanced than the generic CPI in that they measure changes for different household types, but there are still a number of problems with using those indexes to show cost of living changes faced by the most vulnerable and disadvantaged in South Australia. While it is safe to assume that welfare recipients are among the most vulnerable and disadvantaged, any household-based data for multi-person households says nothing about distribution of power, money and expenditure within a household and may therefore hide particular (and often gendered) structures of vulnerability and disadvantage. Further, the living cost indexes are not state-based, so particular South Australian trends or circumstances may not show up.

At the more technical level, the Selected Living Cost Indexes are for households whose *predominant income* is from the described source (e.g. aged pension or government transfers). However, the expenditures that formed the base data and weighting (from the 2009-*10 Household Expenditure Survey*) add up to well over the actual welfare payments available (even including other government payments like rent assistance, utilities allowance and family tax benefits). Clearly many households in these categories have other sources of income, or more than one welfare recipient in the same household. Like the CPI, the Living Cost Index figures reflect broad averages (even if more nuanced), but do not reflect the experience of the poorest in those categories.

Another example of this "averaging problem" is that expenditures on some items, like housing, are too low to reflect the real expenditures and changes for the most vulnerable in the housing market – again, because the worst case scenarios are "averaged out" by those in the category with other resources. For instance, if one pensioner owned their own home outright they would generally be in a better financial position than a pensioner who has to pay market rents – but if the market rent were $300 per week, the average expenditure on rent between the two would be $150 per week, much less than what the renting pensioner was actually paying.

The weightings in the Selected Living Cost Indexes are also based on a set point in time (from the 2009-10 *Household Expenditure Survey*) and can't be changed until the next survey. In the meantime, the price of some necessities may increase rapidly, forcing people to change

expenditure patterns to cover the increased cost. Alternatively or additionally, expenditure patterns may change for a variety of other reasons. However, the weighting in the indexes does not change and so does not track the expenditure substitutions and the impact that has on cost of living and lifestyle.

Finally, the Selected Living Cost Indexes' household income figures are based on households that are the average size for that household type: 1.52 people for the aged pensioners, and 2.57 for the other welfare recipients (ABS, 2013b). This makes comparison with allowances difficult. This *Update* focuses on single person households or a single person with two children (to align to the other welfare recipient household average of 2.57 persons). However, this is a proxy rather than statistical correlation.

It is inevitable that any summary measure will have limitations, and as noted in the main text, the Selected Living Cost Indexes provide a robust statistical base, a long time series, and quarterly tracking of changes in the cost of living which is somewhat sensitive to low income earners.

3. Income Support Payment Calculations – September 2014

Even using the base rate of benefits, the calculation of the relevant weekly incomes is difficult because of the complexity of the income support system which means that payment eligibility and rates change depending on the exact circumstances of the household (eg. age of children, assets). The calculation is also complex because of changes over time in eligibility and available benefits. However, based on an assumption of a single Aged Pensioner and a single Newstart recipient with two children (aged 10 and 14) – with neither receiving Commonwealth Rent Assistance, the basic income supports payments are as follows:

Rates at 31 March 2014

	Base Rate	Pension Supple-ment	Household Assistance Package	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	$383.00	31.455	6.95					$421.40
Newstart - 2 children	$276.20		4.70	86.10	112.00	51.10	3.1	$533.20

Rates at 31 March 2015

	Base Rate	Pension Supple-ment	Household Assistance Package	FTB A child u13	FTB A child 13-15	FTB B	Pharmac Benefit	TOTAL PAYMENT
Aged Pension	$391.1	31.95	7.05					$430.10
Newstart - 2 children	$280.90		4.75	88.41	115.01	52.50	3.1	$544.67

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