



**Privatisation, Inequality and Poverty in the UK:
Briefing prepared for UN Rapporteur on extreme
poverty and human rights**

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Privatisation, Inequality and Poverty in the UK©

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Abstract

*Since the late 1980s, successive governments have increased the role of the private sector in the provision of basic services in the UK, particularly in England. In addition, shifting global trends have led to financial innovation, providing more imaginative methods of sweating capital assets and extracting revenue. **As a result, the provision of services to meet fundamental human needs has become a source of profit for international financiers, diverting revenue streams from potentially progressive provision and infrastructure investment.** Households, many of which struggle to make ends meet, are in some cases **financing interest and dividend payments to the world's richest via their consumption of basic essentials** (here, water, energy and local buses).*

*Privatisation has been driven by an ideological attachment to the supposed efficiency of private markets. In reality, **the result has been upward pressure on prices and restructuring of services, in ways that disadvantage the poorest in society,** contributing to inequality, both in the UK and globally. In addition, policies are contributing to a culture of individual responsibility for disadvantage and deprivation, thus weakening the scope for a coherent approach to social policy. These privatised structures have promoted the needs of investors, and the “market”, over the population.*

*This paper shows that where essential and monopolistic public services are provided by private investors, there are inevitable tensions between the priorities of shareholders and the needs of society. **Social provision within the water, electricity and public transport sectors fails to reach millions of households for whom many basic services are unaffordable (or non-existent in the case of transport).** Furthermore, social policy tends to focus on affordability and consumption while the regressive structures which underpin these outcomes are often neglected.*

Key words: privatisation; inequality; water; energy; transport

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1 Introduction

The UK has been at the vanguard of privatisation since the Thatcher government of the 1980s. The style and reach of privatisation have been more extreme than in other countries. The privatisation programme was associated with multiple objectives ranging from increasing efficiency to raising investment finance and reducing the power of trade unions (Parker 2004). In its early days, privatisation was intended to be both politically popular and irreversible by making share ownership more widespread, for example, by allocating shares to customers of water companies or by selling local bus companies to management buyout teams. Since then, ownership structures have consolidated. Some are still listed on the London Stock Exchange (LSE), some are owned by global conglomerates and some by financial and private equity investors.

This paper draws on case study research into the systems of provision (SoP) for water, energy and transport¹ to show that privatised ownership of essential services is associated with increased inequality and linked to growing deprivation and immiseration for millions of the poorest households. While privatisation of utilities inevitably risks tending towards increased inequality with payments from households to shareholders, aggressive practices by predatory investors have substantially increased returns to investors. Effectively, even **the poorest households are funding distributions to the world's richest through their consumption of water and energy and through their reliance on public transport.** This cross-sector study shows evidence of systematic extraction, as global capital drills down to everyday lives, and this is having a pronounced negative impact on households dealing with multiple deprivations. Regulation has not been able to prevent this. These findings demonstrate that addressing poverty and inequality is not just a matter for fiscal policy via taxation and benefits. **The underlying systems of provision, and the prevailing narratives by which they are sustained, need to be unpicked to assess their distributional impacts.**

2 Water

Water was privatised in England and Wales (EW) 1989. In Scotland and Northern Ireland, the water supply has always been owned and managed by the public sector. In EW, there are ten regional water and sewerage companies (WaSCs) and five smaller water-only companies (WoCs). These are responsible for the vertical process of water provision from abstraction through to billing end users. Three water utilities are still listed on the London Stock Exchange (LSE) (Severn Trent, South West Water and United Utilities). One, Welsh Water, is owned by a not-for-profit company, Glas Cymru. Two WaSCs are delisted and owned by international conglomerates controlled by Asian billionaires (Northumbrian Water and Wessex Water). Five WoCs are also owned by private investors (Bristol Water, Portsmouth Water, Sutton and East Surrey Water, South Staffs Water and South East Water). The five remaining companies are owned by Special Purpose Vehicles (SPVs), companies put together for the purposes of buying and owning the utility. These are four WaSCs (Thames, Southern, Anglian and Yorkshire) and one WOC (Affinity Water). Anglian, Southern and Yorkshire Water are ultimately owned by a corresponding SPV, registered off-shore in Jersey. These companies are all self-financing with virtually no state support.

¹ See Fine et al (2018) for more on the SoP approach.

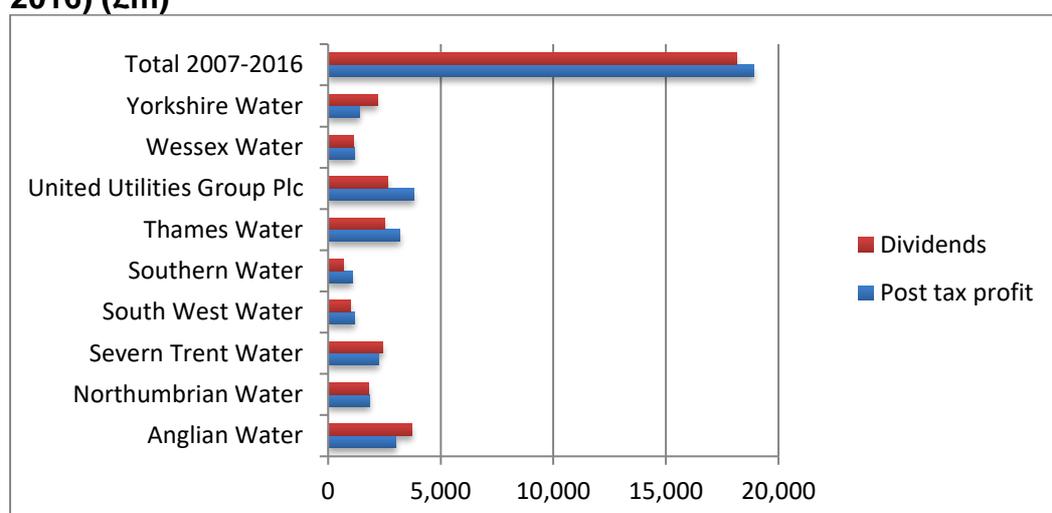
The price charged for water and sewerage services is fixed in advance for a 5-year period negotiated between the regulator, Ofwat, and water companies. In setting prices, the regulator examines company investment costs and performance against targets. **The regulator does not intervene in debts or dividend payments**, seeing these as market outcomes, even though the parameters of the market are entirely shaped by the state. In light of recent media criticism of high dividends and directors' remuneration, under the next Price Review (PR19), companies will be required to explain how these payouts are of benefit to customers² but this requirement stops short of enforcing controls on these. For several years, price reviews have been generous to companies. There is political pressure for PR19 to be tighter on profits of companies and this is expected to put highly indebted companies under strain (Moody's 2017).

2.1 Returns to investors

Since privatisation, company debt has escalated. This has been particularly pronounced in the water companies that have been taken over by private equity investors. By securitising future water bills, they have hiked up the debts of the utility. The companies refinanced so that the utility debts also include some of the "acquisition debt", i.e. the funds that investors borrowed in order to buy the company. Financing costs have soared. The yearly charge for net interest payable for the nine England WaSCs increased from £288m to over £2,000m in the twenty years from 1993 to 2012 (in 2012 prices) (Bayliss 2014).

As debt and associated financing costs have increased, shareholders have been taking out virtually all surplus funds as dividends over the past decade (Figure 1). In addition, these companies pay very little tax, and some paid their directors over £2m in salaries and other benefits in 2016 (Bayliss and Hall 2017).

Figure 1: Total post-tax profit and dividend payments by English WaSCs (2007 - 2016) (£m)



Source: Authors' calculation based on company annual reports

² "PN 28/18 Ofwat announces changes to PR19 methodology" Ofwat Press Release, 3 July 2018, <https://www.ofwat.gov.uk/pn-28-18-ofwat-announces-changes-pr19-methodology/>

These financing costs and company dividend payments are all financed by end users - households and businesses. In the 2010-2015 period around 27% of the average bill went to return on capital (i.e. interest and dividend payments) (Bayliss 2014). Households are, in some cases, effectively paying through their water bills for the costs that investors (in some cases international private equity investors) borrowed to buy the utility in the first place.

The shifting financial structures of company finances are also revealing of growing inequality. The share of company turnover allocated to directors' remuneration and to interest payments have increased dramatically while the share going to salaries has fallen. The ratio of the average highest paid director to the average wage has increased four-fold (Table 1).

Table 1: Directors' Remuneration and Wages for the England WaSCs³

	1993	2003	2013
Average % of turnover for the England WaSCs			
Directors' remuneration	0.13	0.13	0.21
Salaries and wages	15.37	11.38	10.22
Interest payable	4.61	14.37	19.50
Relative pay (£000)			
Highest paid director	120.51	245.58	981.64
Average Wage ⁴	17.80	25.12	33.13
Ratio	6.76	9.77	29.63

Source: Bayliss (2014)

2.2 Water affordability

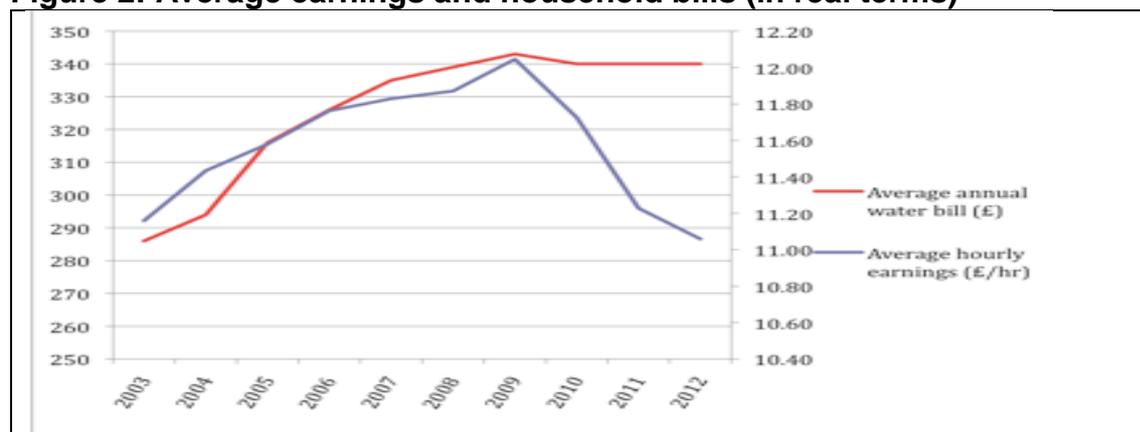
Water prices increased substantially soon after privatisation. Price levels have since plateaued while affordability has fallen with a decline in real wages (Figure 2). The regulator, Ofwat defines households as under 'affordability risk' when they spend more than 3% of their disposable income (after housing costs) on water and sewerage and this is accentuated when spending increases to 5 %. These points indicate where "affordability risks emerge" (Ofwat 2015, p. 6). The 3% threshold is also suggested by the UN in their definition of affordability the human right to water.⁵

³ Thames, Severn Trent, United Utilities, Yorkshire, Anglian, Southern, South West, Wessex, Northumbrian.

⁴ Calculated as total salaries and wages divided by number of employees for each company.

⁵ "International Decade for Action 'Water for Life' 2005-2015", United Nations, http://www.un.org/waterforlifedecade/human_right_to_water.shtml

Figure 2: Average earnings and household bills (in real terms)⁶



Source: Bayliss (2014)

In England and Wales, 24% of households spent more than 3% of disposable income on water and sewerage (5.6m households) and for 11% (2.6m households) the proportion was more than 5% (Ofwat 2015). According to the regulator's definition, almost a quarter of households in England have difficulty paying their water bills.

For the 10% of lowest income households, water bills represented 5.3% of spending in 2013, compared to 2.3% for the average household (Priestly and Rutherford 2016). This translates into real difficulties for poorest households. Research from the Money Advice Trust indicates that the number of calls answered by National Debtline advisers from people seeking help with their water debts increased by 305% between 2007 and 2013 (Money Advice Trust 2014). The proportion of National Debtline calls relating to water debt increased from 4% in 2008 to 16% in 2018 (Money Advice Trust 2018). The Joseph Rowntree Foundation reports that arrears on water bills is the most common type of debt for low-income households (JRF 2018).

In 2015, Ofwat reported a 56% increase in the number of people needing help to manage their water debts since 2012 (Ofwat 2015). Research from PWC in 2016 estimates that bad debts increased by 44% over the previous five years; they are now estimated to add £21 a year to each household bill (Priestly and Rutherford 2016). There is considerable evidence to indicate that those that do not pay their bills are usually poorer households (Ofwat 2015), and this crisis is taking place in the context of rising household debt across utilities more widely (see Energy section below).

2.3 Social policy

Since 2014 companies have been encouraged to establish social tariffs to support disadvantaged customers. At the end of 2017/18 the number of customers receiving support through company social tariffs came to just 393,143 while a further 158,454 were on the governments WaterSure programme. **This amounts to around just over 2% of customers, far fewer than the 5.6m that find their bills unaffordable** (Money Advice Trust 2018; CCW 2018).

⁶ 2012 prices for earnings and 2009 prices for water and water prices are based on those set in 2009 for the next five years.

Furthermore, social tariffs are implemented separately by each water company because, according to the government, companies are better placed for ‘implementing local solutions to local problems’ (DEFRA 2012, p.2). Companies are free to adapt the tariff as they consider appropriate, with two main restrictions. First, the social tariff has to be ‘cost-neutral’, meaning that the revenue that a company loses by offering a social tariff must be balanced elsewhere, for example by a decline in debt recovery costs. No cross-subsidy is allowed, and the companies receive no compensation (Ofwat 2011, p.4). Second, since the social tariff is funded by the other residential bill payers (non-household customers do not contribute to the social tariff), the subsidy to disadvantaged households must be acceptable to the customers paying for it (DEFRA 2012). This creates an environment where people are required to make judgements about deserving and undeserving poor as revealed in comments in consultations about the level of social tariff. For example, these suggest that poor households should make more effort to use less water. **In this way, privatisation has led to a new understanding of fairness. Social policy becomes reduced to charity among households. Meanwhile the large sums extracted by shareholders, some of whom are the world’s richest, and the high payments to directors are deemed to be legitimate outcomes of the market.** With water consumption seen in isolation from the system of water provision as a whole, the regressive impact of the privatisation of the water industry is obscured (Bayliss 2017).

3 Energy

When the energy sector was privatised, the sector was unbundled into four component parts. The transmission and distribution networks, which transport energy from where it is produced to end users, were deemed to be monopolistic because of the scale of the fixed physical infrastructure in their system. Duplication of such networks was considered inefficient. In contrast, the generation of electricity and the retail supply component which engages with the customer (household and business) were considered to be competitive. Retail prices were originally subject to price controls but these were lifted in the early 2000s (IPPR 2014). Energy supply companies set their own prices and they pay a fixed fee to the networks, based on a price set by the regulator. Energy prices are therefore determined by the market and energy policy has been driven by the idea that market competition will lead to lower bills and better service quality and hence be good for social outcomes. The evidence on the reality of energy privatisation is considered below.

3.1 Overcharging by the Big Six

Despite efforts to create competition, the sector remains dominated by six large vertically-integrated incumbent firms, known as the Big Six⁷ which operate both in the retail (supply) part of the market and in generation (and two of these, SSE and Scottish Power also operate distribution networks). These companies have been in place since before privatisation in the 1990s and they inherited a large portfolio of customers on privatisation. Despite efforts to increase competition in the sector, these companies

⁷ The Big 6: British Gas, Npower, SSE, E.ON, EdF and Scottish Power

still control about 80% of the retail supply market, although this has fallen from almost 100% over the past six years.

In 2015 the regulator, Ofgem, called in the Competition and Markets Authority (CMA) because they had grounds to suspect features of the market were distorting competition. There were concerns about the high prices charged by the Big Six companies. **The CMA investigation found that domestic energy price increases had outstripped inflation over the previous decade and standards of service had deteriorated.** They found that the value of detriment to consumers (i.e. the value of overcharging) from excessive prices charged to the domestic customers of the Big Six was around £1.4bn a year (CMA 2016). They attribute this to a lack of customer switching (CMA 2016, p.37):

We have identified a combination of features of the markets for the domestic retail supply of gas and electricity in Great Britain that give rise to an AEC [Adverse Effect on Competition] through an overarching feature of weak customer response, which, in turn, gives suppliers a position of unilateral market power concerning their inactive customer base.

Whilst penetrating in its account of overcharging, the report steps beyond the evidence in pejoratively blaming overcharging on the ‘weak’ response of ‘inactive’ consumers who do not switch provider. Examination of the evidence reveals that the speed and magnitude of the collective shift in consumer behaviour required to eliminate overcharging were far beyond realistic bounds. The process of switching entails sifting through complex and often biased information (Antal 2018) which undermines the notion that an efficient outcome will be the result. Even the UK Secretary of State for Energy, Greg Clarke stressed, “it shouldn’t be necessary to have to switch, to have to go through the fuss, simply to avoid being ripped off.”⁸ Consider in particular, the evidence regarding poorer households. Whilst it may seem that households could save money by switching, households have to be concerned that costs will subsequently increase, a concern which accurately reflects retailer practices. More generally, switching is a risk. Many on low incomes cannot risk financial change and so are in no position to take such a gamble (Middlemiss and Gillard 2015). Research into the “poverty premium” whereby low income households pay more for basic services, finds that households with limited resources disproportionately avoid behaviours which might upset tight financial control such as switching providers or moving from one payment method (such as prepayment meters for fuel) to another. They might have a preference for paper rather than electronic billing to maintain control (Davies et al 2016). Conceptualising the provision of energy services in terms of a “market” works against the circumstances and the interests of marginalised households.

3.2 Profiteering by distribution network operators

Switching, where it does take place only relates to the retail supply component of the household energy bill. Transmission and distribution costs are fixed in advance via price negotiations between these companies and the regulator. Distribution Network

⁸ In May 2017 it emerged that the Secretary of State for Energy, Greg Clarke, had not switched provider. His reason was that “it is quite a hassle to do so.” Energy Secretary admits he has never switched suppliers as he unveils new price cap” The Telegraph, 9 May 2017

Operators (DNOs) control regional power networks and are responsible for linking homes and businesses to the National Grid. There are 14 regional DNOs owned by six different private companies. **Some DNOs are owned by the world's richest.** One (Northern Powergrid) is owned by Berkshire Hathaway Inc, the third largest company in the world, and controlled by Warren Buffet. Another, UK Power Networks which owns London Power Networks, South Eastern Power Networks and Eastern Power Networks, is owned by a collection of companies controlled by Li Ka Shing, the Hong Kong billionaire, 19th richest in the Forbes world rich list. Ka Shing also owns the parent company of Northumbrian Water.

DNOs receive a fee from retail companies (and ultimately are financed by end users) according to prices fixed by the regulator. Payments to these system operators are intended to incentivise good performance. However, research by the ECIU (2017) found that the DNOs reported net profit margins in the range of 25 to 39% per annum. They calculate that the average dividend pay-out was 15% of turnover, equivalent to £13 of the average domestic bill (ECIU 2017). **Research by Citizens Advice Bureau found that consumers were over paying for distribution networks by £7.5bn a year** (CAB 2017). The costs paid to DNOs are financed by all energy customers so switching will not bring this down.

3.3 Disadvantaged customers

Customers that do not actively engage in the energy market tend to be on their supplier's default deal and pay a higher price. Since 2014 the regulator has carried out a survey of customer engagement. **The results consistently point to a relationship between the more socio-economically advantaged consumers being more engaged with the energy market** (and therefore securing cheaper deals for energy bills). Those that switch tend to be younger, from higher social grades, have higher incomes, pay their bills by direct debit and are owner occupiers or private renters (Ofgem 2017b). **Those who are highly disengaged are more likely to be from a lower social grade**, to rent social housing, to be non-white and not to speak English as a first language (Ofgem 2016, p.8). Some on low incomes are effectively excluded from the market due to poor credit history, a lack of access to information and a reluctance to switch provider (Middlemiss and Gillard 2015).

Energy bills are among the most significant expenses for many households and the market has become increasingly complex. **Overall bills in 2017 were 39% higher in real terms than bills in 2001** (Money Advice Trust 2018). In England, 2.5 million households (11%) are classified as being in fuel poverty. The proportions are higher in Scotland and Wales although there is a different definition. **In 2016 energy costs accounted for around 8.4% of household income for those in the lowest decile** compared with 2.6% for those in the highest decile and 4% for all households (Money Advice Trust 2018). The proportion of calls to National Debtline that related to energy debt problems increased from 9% in 2008 to 17% in 2017 as energy costs increasingly make up a bigger proportion of the monthly outgoings of the average household (Money Advice Trust 2018). Poor households pay a higher proportion of their income on energy bills, are more likely to be on poor value-for-money tariffs and are often paying higher bills due to living in energy-inefficient homes (Burroughs 2017).

The past decade has, however, seen a fall in the number of energy customers that are behind on their bills. There has also been a long-term reduction in the number of customers disconnected from energy supply due to debts. In 2006 over 5,000 gas and electricity accounts were disconnected compared with 210 in 2016 (Ofgem 2017a). However, **the levels of energy debt have increased for the hundreds of thousands of customers who are still in arrears** (Money Advice Trust 2018).

In addition, the reduction in disconnections and numbers in debt have corresponded with a surge in the installation of prepayment meters (PPMs). **The proportion of customers on Prepayment Meters doubled from 7% in 1996 to 16% in 2015** (CMA 2016a). When a customer runs into financial difficulty the supplier can obtain a warrant to force installation of a PPM. These can be imposed on customers. According to Ofgem: **“Force-fitting a PPM under warrant can be an upsetting experience and customers are often required to pay for the warrant process, further exacerbating their debt”** (Ofgem 2018, p.34). The regulator is concerned that warrants are being used too quickly and vulnerable customers are charged excessive costs, although a cap on these was introduced in 2018 (Ofgem 2018, p.34).

While formal disconnection has fallen, Ofgem (2018) cites research from Citizens Advice Bureau which estimates that 16% of prepayment customers (some 600,000 households) self-disconnect at least once per year by not topping up their PPM. Of these, 50% included someone with a mental health condition, 33% had a young child and 87% were in receipt of benefits. Customers in financial vulnerability probably self-ration although figures are not known. So apparent improvements in some indicators, such as customer debt mask high levels of vulnerability. **And severe self-rationing can cause or exacerbate existing health problems with potentially devastating results. Research suggests that around 9,000 people died in the winter of 2014/15 because of low indoor temperatures associated with fuel poverty.**⁹ Some of the poorest households have literally disconnected the gas supply from their house in order to avoid paying a standing charge and, as a result, have no access to heating in the north of England.¹⁰

There is some support for vulnerable customers. Supply companies are required to maintain a Priority Services Register (PSR) (a list of vulnerable customers that e.g. need a consistent supply of energy for a health condition). Under the Warm Homes Discount, larger energy suppliers (those with more than 250,000 customers)¹¹ are required to support people in fuel poverty or at risk of it for those that receive relevant benefits. Note that smaller suppliers, new market entrants, are not required to provide this. And customers have to apply for this benefit. Winter Fuel Payments are available for older customers but is not means tested so there are questions around the targeting of this payment. **However, the social provision is woefully inadequate in view of the levels of deprivation demonstrated by the extent self-rationing and self-disconnection, above.** In addition, a new definition of fuel poverty, as distinct from poverty, has isolated the consumption end of the energy SoP, focusing attention to energy efficiency, while issues of inequality and the failure of the energy market are ignored (Middlemiss 2017).

⁹ “Cold homes caused 9,000 deaths last winter, study suggests” BBC News 21 March 2016, <https://www.bbc.com/news/uk-35862763>

¹⁰ Personal Communication, Lucie Middlemiss, Associate Professor, University of Leeds.

¹¹ The threshold is being reduced to 150,000 customers by 2021.

3.4 The price cap

Following the evidence of overcharging in the CMA review, a cap was introduced on the price that could be charged to PPM customers at £1,031 for average consumption (Ofgem 2018). The price cap is to be extended to default standard variable tariffs sometime in 2018/19 winter. The capped price is £1,136 for default electricity and gas bill. This is expected to save the average household around £75 a year. This will protect customers up to a point but there is nothing to stop firms overcharging in other ways (such as on existing arrears).¹² And these price caps are temporary and will last no longer than 2023 by which time, the conditions for competition are supposed to be in place. There are on-going trials of different methods to encourage greater switching but there is no clear indication of any substantial change. If anything, the cap is expected to reduce customer incentives to switch. Furthermore, for customers on low levels of energy consumption facing affordability constraints, the cap is not going to make much difference (Christians Against Poverty 2018).

4 Local buses

4.1 The deregulation reform

The UK is unique among developed countries in having privatised and deregulated local bus transport (in Great Britain and outside of London) with the Transport Act 1985. In practice, ‘quantity deregulation’ means that bus companies are free to provide (and withdraw) services as they please, with little more than formal notice to the Local Authorities. According to the Conservative government of the time, deregulation reforms would encourage competition between a multitude of small private operators, with positive effects on public transport provision (Banister, 2002; Wolmar, 1999). As often the case with privatization reforms (Bayliss and Fine, 2008), this was based more on dogmatic and ideological assumptions than on a sound understanding of how the provision of public transport works (Banister, 2002; van de Velde, 2014).

Indeed, reality turned out quite differently from reformers’ expectations. Initially, deregulation brought about overprovision and fierce competition between many operators (the ‘bus wars’), but consolidation rapidly led to the market being dominated by few large operators, which are often de facto monopolists in local areas. In 2011, the four largest operators (FirstGroup, Stagecoach, Arriva and Go-Ahead) together had a 65% market share.¹³ All except Arriva (a subsidiary of German state-owned railway operator Deutsche Bahn) are listed on the London Stock Exchange.

There are now strong barriers to market entry, as the ‘big players’ benefit from the economies of scale which are inherent to local public transport (Finger and Holdad, 2013), but whose existence was denied by the Thatcher government. **When needed, big players are able to use cross-subsidies to drive smaller competitors out of**

¹² “Energy companies are fining 2.7 million late bill-payers steep penalty fees” The Independent, 12 July 2017.

¹³ Market Share – Stagecoach Group <https://www.stagecoach.com/about/our-companies/arket-share.aspx>

business – even though they do not use them to sustain unprofitable routes for social purposes (Wolmar, 1999).

While the government retained the power to subsidise unprofitable services that are deemed socially necessary, deregulation provided the occasion for a large reduction of public subsidies in 1980s and 1990s (Preston, 2003). **More recently, spending on supported bus services in England and Wales was nearly halved between 2010 and 2018, as part of ‘austerity’ policies** (Campaign for Better Transport, 2018). This has had dramatic impacts on accessibility for households without cars, notably in rural areas.¹⁴

Another way in which the government subsidises bus use is through the ‘concessionary travel scheme’, whereby disabled persons and people of pensionable age have a right to free off-peak travel. This scheme has drawn two kinds of criticism. First, despite having been introduced to address affordability problems, it is poorly targeted, as older people are entitled to it regardless of income, while other disadvantaged categories (e.g. the unemployed) receive no help at all (Mattioli et al., 2018; Shaw and Docherty, 2014; Titheridge et al., 2014). Second, it can be seen as a public subsidy to profit-making private operators, and ‘bad value for money’ for the public purse (HoC, 2018; Preston, 2003; Mees, 2010). According to some estimates, concessionary bus passes account for 45% of bus operators’ revenues (HoC, 2018, p.22).

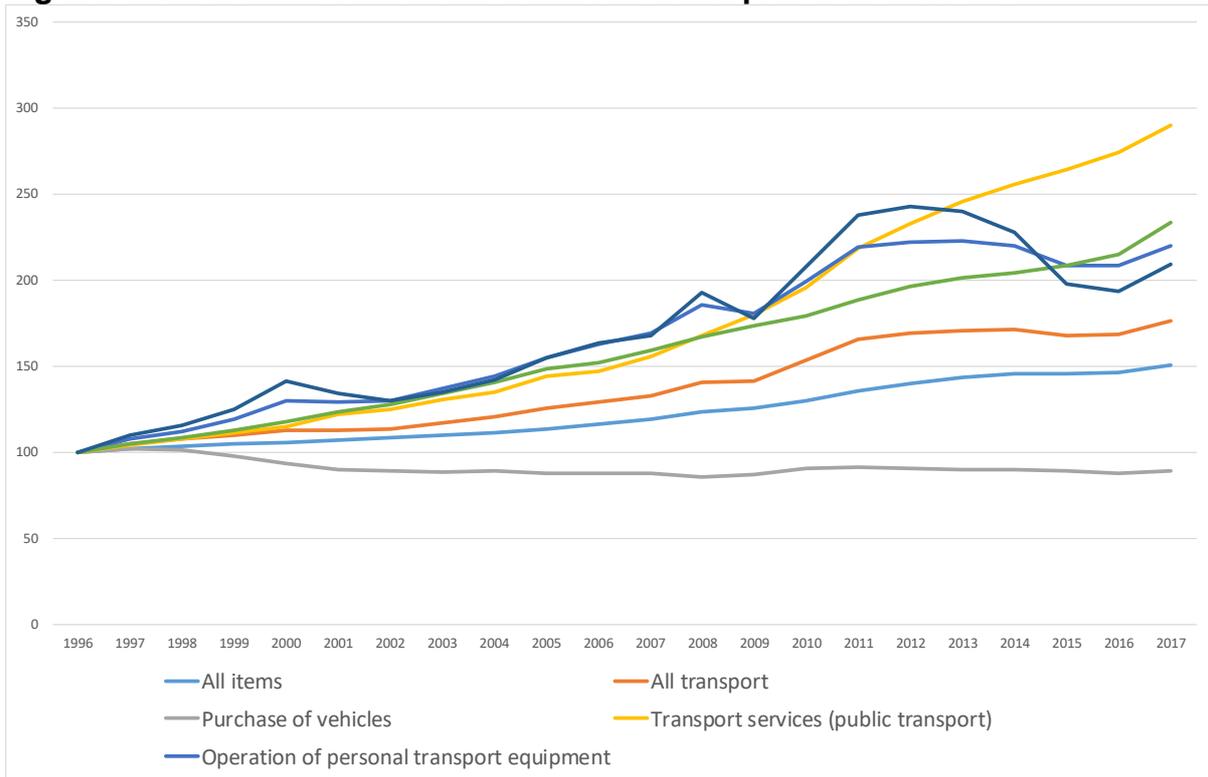
4.2 Negative impacts

Overall, **bus deregulation in Great Britain has been linked to large fare increases** (Banister, 2002; Preston and Almutairi, 2013), which explains why the real cost of public transport has increased more rapidly than other items of expenditure since the 1990s (Figure 3).

While local bus provision was radically deregulated in the rest of Great Britain, in London a more moderate reform was introduced, whereby a public agency (Transport for London) retained control of the strategic and tactical level of public transport provision, and operations are tendered to private firms based on cost and quality. In doing so, the government inadvertently set up a natural experiment on the impacts of different models of public transport provisions. The results could not be clearer: while bus travel per capita has rapidly increased in London between 1990 and 2010, it has declined in the rest of Great Britain, including other metropolitan areas (Figure 4).

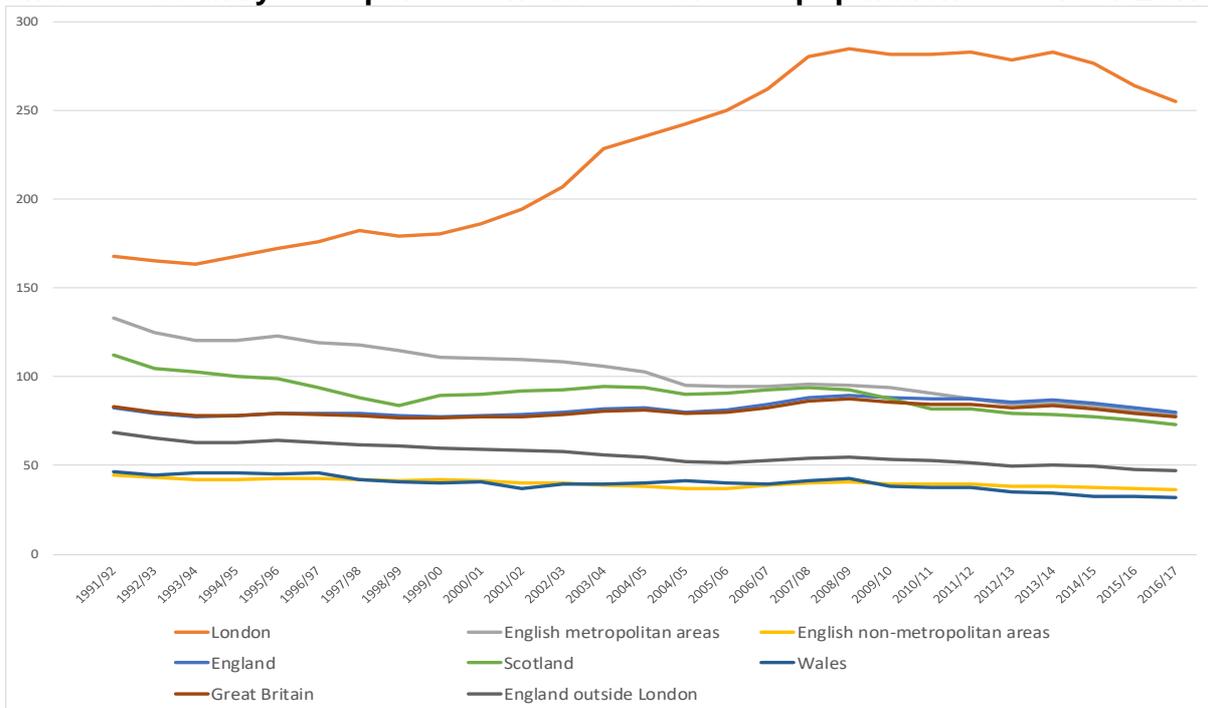
¹⁴ ‘There used to be a bus every hour. Now we hardly leave the house, The Guardian 10 Jul 2018, <https://www.theguardian.com/society/2018/jul/10/local-bus-services-council-routes-jobs-hospitals-gps>

Figure 3: ONS CPI index for different items of expenditure 1996-2017.



Author's elaboration based on <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceindices>

Figure 4: Passenger journeys on local bus services by metropolitan area status and country per head of population 1991-2017.



Source: DfT Bus Statistics Table BUS0103.

4.3 The British model in international comparison

A possible explanation for the reductions in patronage that have followed deregulation in the UK is that it had 'fragmentation effects' such as poor interconnections between services and lack of inter-ticketing, which reduce the convenience of public transport (O'Sullivan and Patel, 2004). These issues constitute a form of market failure, and addressing them would require greater public intervention. **Providing high standards on the entire public transport network requires coordination and cross-subsidies between different modes, routes and operations, and in a competitive market there is no incentive for operators to do so (Mees, 2010).**

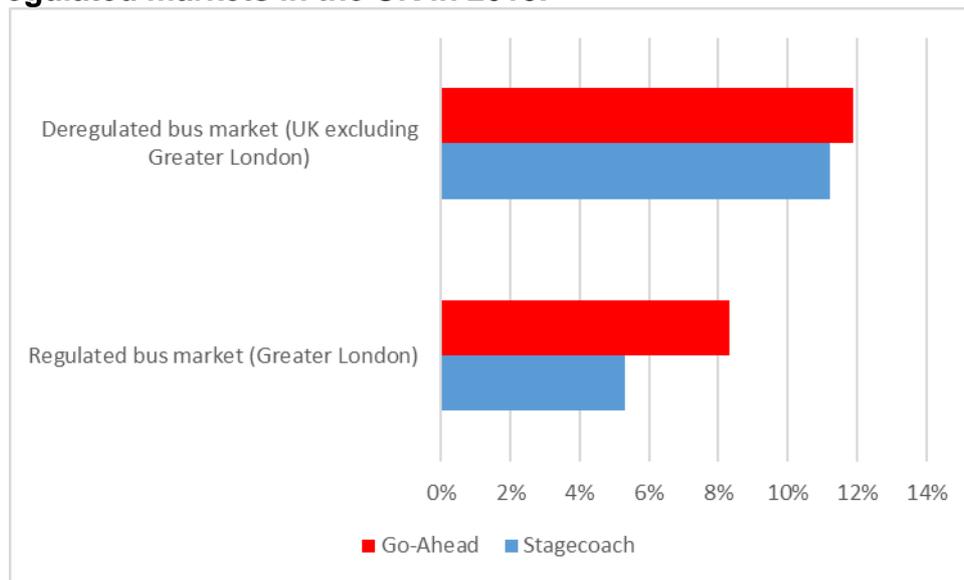
Alternative models of local public transport provision are prevalent in other OECD countries, where private players can be involved in the operation of public transport, but generally under the coordination of public agencies (McLeod et al. 2017). For example, 'public transport federations' in German-speaking countries (Buehler et al., in press; Koch and Newmark, 2016) operate on the basis of cross-subsidies between different routes and operations, and often also receive funding from more profitable municipal utilities such as electricity (Buehler and Pucher, 2011; Koch and Newmark, 2016).

Internationally, empirical research has found better social sustainability outcomes (in terms of e.g. affordability) for public transport systems with public regulatory structure (Currie et al., in press), higher levels of user satisfaction for single-provider systems (Florio et al., 2013), and reduced supply in cities where services are contracted out (Albalade and Bel, 2010). This suggests that **the British model of quantity deregulation is ill suited to provide high quality, affordable local bus services** (Mees, 2010).

While there have been attempts to re-regulate the market outside of London since the 1990s, they have been fiercely opposed by the private operators, as their profits in a deregulated environment are much higher than in the London tendering system (Figure 5 –see also Knowles and Abrantes, 2008; Wolmar, 1999). This suggests that **privatization and deregulation, once enacted, are to some extent locked-in by the existence of powerful 'incumbents'**, which benefit from the status quo and lobby against reforms.

Since the 1980s, and despite the shrinking size of the bus market, firms like Stagecoach have achieved impressive growth through the acquisition of competitors, company restructuring, asset divestment and, increasingly, ventures abroad (Wolmar, 1999). This suggests that **the interests of large, multinational private bus operators are not aligned with the goal of maximizing bus use and reducing car dependence** in specific local areas.

Figure 5: Operating profit margins of two major bus operators in the regulated and deregulated markets in the UK in 2018.



Source: StageCoach (2018, p.2), Go-Ahead (2018, p.38).

4.4 Impacts on transport poverty and ‘forced car ownership’

There is evidence to suggest that the current model of local public transport provision in the UK is not aligned with the goal of ensuring social inclusion and access to services and opportunities to all sectors of the population. The UK is globally known for its research and policy-making on ‘transport poverty’ (Lucas, 2012; SEU, 2003), which arose partly as a response to the dynamics unleashed by public transport deregulation in the 1980s (Hine and Mitchell, 2003; Docherty and Shaw, 2008). A particular form of transport poverty is ‘forced car ownership’, i.e. when low-income households are ‘forced’ to own and operate cars, despite their substantial cost, because of the lack of practicable alternatives. A recent study has found that **7% of UK households (12% in the lowest income quintile) own cars despite being in ‘material deprivation’ (i.e. not being able to afford at least three necessities) (Mattioli, 2017)**. These households typically have high levels of debt, and suffer from domestic energy poverty, which may be the result of high expenditure on car ownership and use leading them to curtail other areas of expenditure. They are also likely to be particularly vulnerable to increases in the price of motor fuel, which has been particularly volatile in recent years (Fig.3). A recent study has found that households with low incomes and high motoring costs are unable to reduce their car use when fuel prices go up, with resulting economic stress (Mattioli et al., 2018).

This problem has a geographical dimension, with rural and periurban areas more vulnerable than urban areas, and city regions in the North of England more vulnerable than Greater London, due to worse public transport provision and higher levels of expenditure on motor fuel relative to income (Mattioli et al., 2017). It is possible as well that the differential impact of the 1980s deregulation reforms on the capital and the rest of England has contributed to deepening this geographical divide.

5 Conclusion

It is increasingly well established that private providers of basic services are creating structures for sweating capital assets and extracting revenue at the expense of households. Water companies have attracted censure from the Secretary of State.¹⁵ There are media stories of “Fatcat Energy Bosses”¹⁶, energy companies are described as “greedy”¹⁷ and even the Prime Minister has called energy prices a “rip-off”.¹⁸ However, companies cannot be blamed for maximising shareholder returns by legal means. Rather than criticism and moralising, legislation is needed. However, it is unclear that the regulators have sufficient powers or inclination to rein in private companies. The state has a contradictory position, required to protect the interests of consumers at the same time as ensure that firms are able to finance their investments and that UK plc is an attractive investment destination.

Meanwhile, growing numbers are facing challenges paying for water and energy and even accessing transport. While household incomes are clearly significant, affordability cannot be set aside from the underlying systems and structures by which such outcomes are created. **The responsibilities of the state to meet the needs of all society do not neatly substitute into profitable private sector investments.** These represent a contrasting ethos and underlying rationale. The above discussion shows that private firms will obstruct the public good and social interests in their pursuit of profit. Low-income households suffer most and the state has not been able to plug the gaps.

Social policy is largely located outside the provision of these services. While welfare benefits support incomes, the inequality in the financing structures behind these essential and monopolistic services is accepted and even encouraged. In both water and energy, private ownership is a factor in pushing up prices. With bus services, profit maximisation of private companies has effectively severed transport links for some households. **These privatised structures are hugely important in increasing inequality.** An ideologically-driven preoccupation with market outcomes and efficiency, supposedly arising from competition dominates policy. Yet this approach appears to be blind to the reality of the inequality that is being created by allowing private capital to profit from the provision of essential services

Those that struggle to pay utility bills are typically juggling multiple debts, and this leads to significant welfare concerns. Privatisation has led to a transformation of state responsibility so that social policy is largely external to the system of provision for basic services. Responsibility is outsourced to the individual who is supposed to seek out a cheaper energy provider and / or reduce their consumption to live within their means.

¹⁵ “Michael Gove launches searing attack on water company bosses over tax avoidance and executive pay” The Independent 1 March 2018 <https://www.independent.co.uk/news/uk/politics/michael-gove-water-company-bosses-speech-attack-audience-tax-executive-pay-a8235531.html>

¹⁶ “Griddy Guts: Fatcat energy bosses taking home up to £5.9m causing bills of hard-up families to rise by £60” The Sun 27 November 2017 <https://www.thesun.co.uk/money/5005893/energy-companies-bills-rising-profits-chief-pay/>

¹⁷ “Minister slams the greed of British Gas” Mail Online 10 April 2018 <https://www.dailymail.co.uk/news/article-5601151/Minister-slams-greed-British-Gas.html>

¹⁸ “UK regulator caps energy prices to save households about a billion pounds a year” Reuters 6 September 2018 <https://uk.reuters.com/article/uk-britain-energy-prices/uk-regulator-sets-energy-price-cap-at-1136-pounds-a-year-idUKKCN1LM0N8?feedType=RSSandfeedName=personalFinanceNews>

Deprivation is treated as an outcome to be addressed by the system of benefits, or stopgap measures of price controls. Meanwhile, **the systematic trickle-up of funds from households to highly-paid directors, to financiers and to shareholders, via the provision of essential monopolistic services, is largely unchallenged and has become effectively normalised.**

With regard to local public transport, the evidence suggests that the deregulation reforms enacted in the 1980s have contributed to increasing car dependence in the UK, by reducing the affordability and the level of provision of local bus services. For low-income households, this has likely resulted in transport poverty and forced car ownership, with associated problems of economic stress. This runs counter not just to the objective of social inclusion, but also to sustainability policies.

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