

Affordability and 21st century telecommunications services

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Abstract: One of the central goals of ACCAN's 2013 Affordability Roundtable was to kick-start a broader discussion around the affordability of telecommunications products and services, encouraging new and innovative social programs and industry-wide models which can be employed to alleviate the affordability divide. Research indicates that low-income consumers pay a significantly higher proportion of their income for telecommunications access than the majority of Australians, and that this affordability divide between low and higher income Australians is creating barriers to connectivity for many low-income consumers. This paper is intended as a continuation of that broader discussion and builds upon the ideas first developed in the article *Improving Affordability of Communications: Research and Policy Directions* published in the AJTDE in 2013. This article encourages the conversation through an interrogation of the current affordability initiatives, both domestic and international, and proposes new initiatives and safety net programs that can assist low-income Australians to be digitally connected.

Introduction

One of the central goals of ACCAN's 2013 Affordability Roundtable was to kick-start a broader discussion around the affordability of telecommunications products and services, encouraging new and innovative social programs and industry-wide models which can be employed to alleviate the affordability divide. Research indicates that low-income consumers pay a significantly higher proportion of their income for telecommunications access than the majority of Australians, and that this affordability divide between low and higher income Australians is creating barriers to connectivity for many low-income consumers (SACOSS 2014: 4). This paper is intended as a continuation of that broader discussion and builds upon the ideas first developed in the article *Improving Affordability of Communications: Research and Policy Directions* published in the AJTDE in 2013. This article encourages the conversation through an interrogation of the current affordability initiatives, both domestic

and international, and proposes new initiatives and safety net programs that can assist low-income Australians to be digitally connected.

Access to affordable telecommunications for all consumers is one of ACCAN's three key objectives – Availability, Accessibility and Affordability. It is broadly accepted that access to ongoing telecommunications services is essential for full economic, social and cultural participation (Milne 2006). In other words, access to telecommunications is necessary for a full and meaningful citizenship. The main method of communicating with many government agencies is increasingly through online channels and this method of communication will only become more widespread with the Coalition Government's Digital First Strategy. This Strategy will require all government services and public interactions to be available digitally by 2017 (Liberal Party of Australia 2013: 19).

Providing government services and communication online will increase consumers' choice and convenience in interacting with government. However, not all consumers will benefit from this digital first e-government. There is growing evidence that a significant number of Australians are struggling to stay connected to our increasingly digital society because of affordability barriers. In ACCAN's 2013 ATJDE article, there was considerable discussion of the important findings from the Anglicare Victoria – ACCAN funded telecommunications hardship survey of people accessing emergency relief services. More recent research supported by ACCAN indicates affordability barriers continue to add to the exclusion of low-income Australians, specifically those experiencing homelessness and financial hardship (Humphry 2014).

How are we defining affordability?

Price and affordability are difficult concepts to measure and define since what one person considers to be affordable might not be affordable for others. The UK telecommunications regulator, Ofcom, recently explained that, “a good or service is considered to be affordable for a consumer if the consumer is able to purchase it without suffering undue hardship” (Ofcom 2014: 12). Another common measure of affordability is examining the average proportion of disposable income spent on telecommunications services and analysing whether the proportion is the same across all income levels. If this proportion is substantially higher for lower-income households, telecommunications costs are considered to be less affordable for lower income earners (Humphry 2014:37-38).

In 2010 Vodafone commissioned a study on the affordability of telecommunications in certain countries in the European Union. The study defined a telecommunications package as affordable if it:

- Allows a household in the lowest income decile to make socially necessary use through sustainable expenditure. In other words, individuals should be able to use telecommunications services in line with what might generally be considered a ‘social norm’ without sacrificing spending on other essential items.
- Helps a household readily control its expenditure of telecommunications.

Affordability, therefore, is not just about monthly price but is a multi-dimensional issue. For the purposes of this article, we define affordability as a consumer’s ability to pay for and use telecommunications without sacrificing expenditure on other essential services and items (Lewin & Milne 2010: 4-5).

How is Australia ranking?

The World Economic Forum publishes an annual Network Readiness Index which produces a score for each country based on the environment for ICTs, the readiness of a society to use ICTs, the actual usage of all main stakeholders and the impacts that ICT generates in the economy and society (Bibao-Osorio et al 2014). In the 2014 Index, Australia ranked 18th overall, but the measurement where Australia scored lowest was affordability. Here we were ranked 49th. In fairness, this was an improvement on previous years’ figures, which ranked Australia 97th in 2013 and 100th in 2012. In calculating affordability, this measurement considers mobile cellular tariffs, fixed broadband internet tariffs and competition in the internet and telephony sectors. By rank, mobile tariffs and competition are improving, but the relative cost of fixed broadband monthly tariffs is not. It is important to note though that this Index does not include fixed-line services and only focuses on mobile voice and fixed broadband services.

These findings have been corroborated domestically in the ACCC *Telecommunications Report* which showed that in the 2013-14 financial year, overall prices for telecommunications services fell, in real terms, by 2.7 per cent. This is part of a wider decline in the price of telecommunications services which has decreased in real terms by 23 per cent since 2006-07. Against the trend, the price of NBN internet services increased by 4.6 per cent, an increase that was offset by an increase in data allowances in some of the plans (ACCC 2015: 77). This demonstrates the difficulty of comparing products as they develop, and while increased data translates into value for money for many consumers, it is important to remember that some consumers may not want or use extra inclusions. As such, a multifaceted understanding of affordability should take into account value-for-money, as well as the availability of cheaper plans that suit the needs of lower-usage consumers.

What are the numbers?

The Australian Council of Social Services (ACOSS) 2014 *Poverty in Australia* report indicates that significant numbers of Australians are living in poverty. In 2012, 2.55 million people (13.9%), and 603,000 (17.7% of all children) children lived in households below the 50% of median income poverty line ([Saunders et al 2014](#): 8). We know from the 2013 Anglicare Victoria Hardship Survey and the 2014 *Homeless and Connected* research report that many people living in poverty struggle to maintain telecommunications connectivity. For example, the 2013 Anglicare Victoria survey found that 66% of low-income survey participants experienced difficulty paying for their mobile service in the previous 12 months ([Wise 2013](#): 2). We know from 2012-13 Australian Bureau of Statistics (ABS) figures that 98% of households with a household income of \$120,000 or more had internet access, compared to 57% of households with household income of less than \$40,000 (ABS 2014) and the Anglicare Victoria survey found that 50 per cent of those on low incomes cannot afford internet access ([Wise 2013](#)).

While reasons for non-adoption of telecommunications are multi-faceted, affordability is often cited as one of the major contributing factors influencing consumer telecommunications take-up ([Turnbull 2014](#); [Morsillo 2012](#); [Goggin 2014](#)). It is estimated that 6% of the population, over one million Australians, do not use a mobile phone. It is also estimated that 19% of homes do not have any internet connection ([ABS 2014](#)). Within certain cohorts of society these numbers are even greater. For example, 54% of sixty-five year olds and over do not use the internet and half of those with a disability and over the age of sixty-five do not have an internet connection ([ABS 2014](#)). While many consumers may choose not to have an internet connection – due to affordability or other reasons – the 2013 Department of Communications' *Broadband Availability and Quality Report* highlights that about 6 per cent of premises are unable to access fixed broadband ([Department of Communications 2013](#)). As such, the reasons for not having an internet access are multifaceted and include affordability and availability of services.

Current safety net

Currently in Australia, there are a number of initiatives which have assisted low-income consumers to access what has, until recently, been the primary telecommunications service – the fixed line voice service, known as the standard telephone service (STS). The overarching public policy mechanism to address fixed line connectivity for all Australians is the Universal Service Obligation (USO), however this does not specifically address affordability. Telstra is the nominated universal service provider; however, other carriers contribute to the costs of providing this service ([ACMA 2015](#)). The USO mandates that all Australians should have

reasonable access to a fixed line service wherever they live. However, the USO is a 20th century legislative instrument operating in a very different 21st century digital environment – an environment in which access to a fixed line home phone cannot provide the connectivity necessary for full economic, social and community participation.

Access to an affordable fixed-line telephone service no longer provides a level of connectivity considered essential. In urban areas, it is outgrowing its essential nature as the primary means of connecting to our networked society. This is corroborated by an increasing number of consumers who are opting to forego fixed-line telephony, preferring mobile telephony as their sole telecommunications service. Since around 2002, mobile phones have become the dominant technology in voice communication as the number of mobile subscribers has overtaken the number of landline subscribers globally (Eardley et al 2009: iii). Additionally, in order to fully participate in today's digital economy, broadband connectivity is an essential service, because without it people are excluded from normal social and economic activities. Increasingly, it is broadband connectivity which can provide access to employment opportunities, government services and information and online educational possibilities. All of these are key enablers to help lift people out of poverty.

Local provisions

Currently there are limited solutions available to assist low-income consumers with affordability of telecommunications access. The Federal Government provides the Telephone Allowance to certain eligible pensioners and, depending on the beneficiary's circumstance; this payment is either \$27.20 or \$40 per quarter.

Telstra also offers a number of services targeting low-income earners, which is a requirement of its licence condition (Carrier Licence Conditions (Telstra Corporation Limited), cl. 22). This condition, which is manifested as the *Access for Everyone* package, was introduced in 2002, following the Australian Competition and Consumer Commission's (ACCC) 2001 report on Telstra's pricing arrangements, which found that cost increases stemming from the rebalancing of line rental and other charges, placed undue financial pressure on low-income households.

The *Access for Everyone* low-income package provides a number of critical services to assist significant numbers of low-income Australians accessing telecommunications services. These include, for example, discounts on telephone connection charges and monthly account charges for eligible pensioners, and 'Sponsored Access' services, free of monthly account charges, for crisis and emergency accommodation centres, so that residents can be reached by telephone (Telstra 2015).

In the 2013-14 Financial Year the total value of the low-income package was \$145 million. The majority of this assistance is provided through the pensioner discount, providing fixed line home phone discounts to the value of \$117 million in FY 2014 (Telstra 2014). In the 2013 report to the Minister for Communications, the Low Income Measures Assessment Committee (LIMAC), which oversees the *Access for Everyone* program, noted that there had been a drop in the assistance provided via the pensioner discount over the previous five years to the value of \$40 million (Telstra 2013: 3). This was attributed to pensioners opting for bundled services offering better value, but it is unclear from the report if the drop in the use of the pensioner discount was influenced by the growing preference for mobile telephony over traditional fixed line home phone services.

International provisions

In the US there are two types of subsidies available to low-income or disadvantaged consumers. These are Linkup, which subsidises initial connection for telephone services, and Lifeline, which subsidises the monthly price. The Federal Communications Commission (FCC) is responsible for administering the *Lifeline* and *Link-Up* programs. A not-for-profit company, the Universal Service Administrative Company (USAC), oversees these programs and the source of funds is based on a 10 per cent charge on long-distance calls (Eardley et al 2009: 22). As a general rule, eligibility is based on household income levels (household income must be at or below 135 per cent of the national poverty guidelines), or on participation in other means-tested government programs (such as Medicaid, food stamps, Supplemental Security Income, federal public housing assistance, the low-income home energy assistance program, Temporary Assistance to Needy Families, or the national free school lunch program) (FCC 2015).

A policy review in 2013 found that the Linkup subsidies increased take-up of telecommunications more than the Lifeline subsidies. It found that young people and renters in particular benefit from this subsidy and that it is cost effective as it is targeted at low-income households that do not have telephone services. These households also have extremely large discount rates, and assistance with immediate upfront costs is valued higher than assistance with ongoing costs. This highlights that the ongoing cost is not the only factor for affordability but in fact set-up costs also play a large role in the affordability of a product or service (Ackerberg et al 2013).

More recently, the Lifeline program expanded and a new program, Safelink Wireless, was created. This program enables low-income households to access mobile phone products and services as a direct substitute for a home phone (TracFone Wireless Inc 2015). This is an innovative initiative as it takes into account the changing telecommunications landscape

where fixed lines are no longer considered the most essential telecommunications service. Furthermore, in May this year the FCC proposed extending the Lifeline subsidy to broadband services – highlighting the program’s responsiveness to the evolving definition of ‘essential service’ (Gross 2015).

In the United Kingdom, the major telecommunications provider, British Telecom (BT), offers a number of packages and subsidies targeted at low-income consumers. The BT Basics package is available to consumers that receive one of the following government benefits – income support, job seekers allowance or guaranteed pensioners credit. The package provides line rental for a fee of £13.50 (around \$30) per quarter, which includes £4.50 worth of free calls. Every domestic call made after this is charged at a discounted rate. This package not only provides low income households with access to telephone services but broadband internet is also available through this scheme (BT 2015). However, it is only available to BT customers so to benefit customers must switch carriers if they already have a rental line with another operator (Eardley et al 2009: 22).

Proposals for further discussion

The US and UK examples highlight how telecommunications providers are adapting to the changing telecommunications landscape as they provide discounts on mobile and broadband services, rather than solely on fixed line services. Further discussion in Australia needs to focus on the affordability of mobile and broadband services, and not be confined to the fixed line service.

The array of products which make up Telstra’s current low-income package undoubtedly provides vital assistance for many consumers and people facing financial hardship. However, there is no industry-wide obligation to provide low income measures. It is possible that there are other mechanisms which could provide broader connectivity benefits and certainty for low-income consumers. These include, for example:

- Social tariffs directed to mobile broadband assistance, which cover set up costs as well as ongoing costs
- More low cost packages specifically targeted for low- income consumers
- Introduction of an industry-wide low-income package
- A redefined USO to provide universal access to mobile and broadband services
- Government allocation of a minimum broadband connection with the pension
- Telecommunications vouchers as a form of subsidy.

As discussed above, the most recent ACCC’s *Telecommunications Report* found that overall prices for telecommunications services in Australia had decreased; however, prices for NBN

plans had increased in line with increased inclusions, such as higher upload and download speeds. While this might increase the value-for-money of NBN plans, it is important to remember that not every consumer necessarily wants or needs more plan inclusions. ‘No frills’ plans, that continue to offer a basic or minimum service at a low cost, are necessary to ensure that users with varying needs are able to access suitable telecommunications services and plans. As such, affordability needs to take into consideration the extent to which products and services provide value-for-money and choice for consumers, which suit consumers’ varying requirements and circumstances.

Conclusion

By drawing on international examples of plans and services targeted at low-income consumers, and by highlighting how the use of telecommunications has changed to no longer be predominately focused on the fixed line service, this article has demonstrated that there is a need to reconceptualise what we mean by ‘affordability’. Affordability can no longer simply be equated with decreased costs for products and services, or with an increase in value-for-money. This is because for products not to place an undue economic burden on consumers, there must also be variety and choice – tailored to consumer needs at both the high-usage or low-usage end of the market.

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