



# Still Addressing the Poverty Premium

A report for Citizens Advice Scotland by Cambium Advocacy

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## About us

Citizens Advice Scotland (CAS), our 61 member Citizen Advice Bureaux (CAB), the Citizen Advice consumer service, and the Extra Help Unit, form Scotland’s largest independent advice network. Scottish CAB deliver frontline advice services through more than 200 service points across the country, from city centres to island communities.

Advice provided by our service is free, independent, confidential, impartial and available to everyone. We are champions for both citizens and consumers and in 2014/15 our CAB network of dedicated staff and volunteers helped nearly 274,000 people deal with over 900,000 advice issues. In this year, CAB had a financial gain for clients of over £120 million.

In addition the Citizens Advice consumer service provides a freephone service for those needing advice and information on consumer rights and helps to solve problems with consumer goods and services. Citizens Advice Scotland delivers part of this Great Britain wide service from a call centre in Stornoway, helping people in Scotland and across other parts of Great Britain.

The Extra Help Unit, through a team of telephone caseworkers based in Glasgow, helps people throughout Great Britain who have complex energy or postal complaints or are at risk of having their gas or electricity cut off who are referred through our consumer helpline, Ofgem, the Energy Ombudsman, or their local elected representative.

Citizen Advice Scotland’s simple but robust vision is paramount to all our goals:  
**“A fairer Scotland where people as citizens and consumers are empowered and their rights respected.”**

## Executive Summary

This research report, part of our ‘**Paying the Poverty Premium**’ series, was designed to investigate CAB clients’ experiences of the “poverty premium”.

The “poverty premium” is a term used to describe how those on low incomes often pay more for essential goods and services. Examples of this can be seen where people are unable to access banking facilities leading them to the most expensive forms of credit, or in people’s use of pay-as-you-go mobile contracts which see them charged more per unit of use. It is also seen where people who are unable to afford internet access often cannot secure the cheapest deal for their energy supply. It has been calculated that this premium increases cost by 10% on average.

This report highlights the experiences of a sample of clients who have come to the Scottish CAB Service for help with a range of issues. Whilst this research does not seek to quantify the incidence of the poverty premium, it does provide evidence that the premium continues to operate across the various essential services including communications, energy and banking. Each section of the report highlights cases that provide examples of the continued operation of the premium in each of those areas.

### *Accessing services – mobile phones*

- Our evidence shows that low income consumers using pay-as-you-go mobile phones often find it more difficult to access both public services and support such as help with energy costs due to the high costs associated with this payment method.

### *Accessing energy tariffs – lack of internet and banking services*

- Our evidence shows that low income consumers without access to the internet and Direct Debit facilities are excluded from the cheapest deals, meaning they pay more for their energy than consumers with internet access

### *Accessing other services – lack of internet access*

- Our evidence showed that low income consumers have been excluded from accessing the Scottish Welfare Fund and Warm Homes Discount due to a lack of internet access

### *Standing charges – energy services*

- Our evidence shows that consumers faced debt and hardship as a result of the introduction of a standing charge for gas and electricity

### *Charges and reductions for water and waste water services*

- Our evidence shows that consumers are suffering detriment as a result of debt collection practices and benefits deductions for water debt. Often this debt was incurred without the consumers’ full knowledge and understanding of the charging system.

### *Lack of basic banking services – direct debit and credit*

- Our evidence shows a poverty premium faced by consumers without access to basic banking facilities, as well as serious problems with credit brokers

In uncovering these cases we highlight some of the issues which need to be tackled to ensure those who are on the lowest incomes are not further disadvantaged.

## Summary of recommendations

### *Accessing energy tariffs – lack of internet and banking services*

Ofgem, the Competition and Markets Authority and energy companies should consider what further action can be taken to eliminate discrimination facing low income consumers such as;

- a) charging for replacement of PPM
- b) lack of access to information on pricing due to limited internet access
- c) lack of access to internet-only tariffs
- d) lack of access to direct debit-only tariffs due to poor access to banking services

### *Accessing other services – lack of internet access and mobile phones*

The Scottish Government's move to scrap mobile charges on calls to NHS 24 is a good example of how services can be adapted to meet people's needs and circumstances. An accessibility audit of other services designed to support people on low incomes could provide similar action points.

With support and dedicated resources, local authorities, JobCentres and Scottish bureaux could potentially provide internet and telephone access points for people who need to access services.

### *Standing charges – energy services*

Government and regulators should consider eradicating standing charges where people are not using supply, or further consider the potential impacts of setting standing charges at zero as some companies have already done.

### *Charges and reductions for water and waste water services*

Public understanding of water charges should be addressed as clients facing difficulties are often unaware of their liability.

Another area to explore could be the extension of the council tax reduction to include these charges, increasing the possible reductions from a maximum of 25% to a maximum of 100%.

It would be useful to know the cost implications of such a measure and how these may be offset by savings in terms of debt collection efforts. Further research on this would be welcomed.

### *Lack of basic banking services – direct debit and credit*

The lack of direct debit facilities for many people on low incomes is placing additional costs and burdens on CAB clients, forcing them into using payment cards to carry out financial transactions, at a cost far higher than would be incurred through normal banking services. It is clear that further efforts are required to develop solutions that would make transactions easier and lessen the costs involved.

We are seriously concerned about the actions of many credit brokers in the market. Action by the Financial Services Ombudsman (FSO) and Financial Conduct Authority (FCA) should make a difference, but we believe there is ample evidence of unfair conduct persisting. A round-table discussion could build on the experience of other market failures such as the mis-selling of Personal Protection Insurance, to find solutions that deter future unethical conduct and allow fast-track compensation for those who have been unfairly treated by brokers.

## Introduction

Many thousands of our fellow citizens are being forced to pay more for basic goods and services than their better-off counterparts. This report gives examples of the human cost of this 'poverty premium' and is based on the real experiences of people who have come to the Scottish CAB Service for advice.

Awareness of the existence of the poverty premium is not new; previous work uncovering the nature and extent of the poverty premium and analysing its causes and consequences are listed in the Appendix to this report. Indeed steps have already been taken by governments, regulators and service providers to deliver positive change in some specific circumstances. However, as this report shows, it clearly continues to exist and will remain a significant area of work for CAS. Indeed, CAS is undertaking research<sup>1</sup> into relevant consumer behaviours which, combined with the evidence of structural issues presented here, will add to our understanding of the issues involved.

Several reports - including a comprehensive study commissioned by Consumer Futures<sup>2</sup> - have recommended action from regulators, companies and governments to prevent discrimination, or to mitigate the impact of the poverty premium on poorer citizens who pay, on average, 10% more for essential goods and services.<sup>3</sup>

This report adds to the existing literature by looking at the recent experiences of a selection of people visiting the CAB service over the 12 months to February 2015. We show the very real human impacts of the additional costs and barriers experienced by low-income households. While we have not sought to quantify the poverty premium, the qualitative evidence collected here nevertheless appears to confirm Consumer Futures' previous estimate that the poverty premium can mean the difference between families being almost able to cope (with an income £9 a week below the Minimum Income Standard) to finding themselves unable to cope (£39 a week below MIS).<sup>4</sup>

When the poverty premium impacts people on very marginal incomes it can leave them destitute and in need of emergency assistance such as help from food banks. The poverty premium does not just make life more expensive for the financially less well off, it often pushes them over the edge and into crisis.

We find evidence of how various aspects of poverty premiums can affect the same individual, compounding the impact of poverty upon their lives. We see how the lack of internet access, for example, or a bank account, or the need to avoid uncertain short-term costs, leads households to remain on energy supply payment methods which are far from the cheapest for their usage patterns.

We show how the pricing structures developed within the energy market – despite recent reforms – continue to discriminate against low-use customers, leaving some CAB clients with debts for utility services they do not use.

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<sup>1</sup> <http://www.cas.org.uk/publications/invitation-tender-%E2%80%93-research-poverty-premium-and-consumer-behaviour-low-income>

<sup>2</sup> Consumer Futures supported by Joseph Rowntree Foundation, Addressing the poverty premium, March 2013 <http://www.consumerfutures.org.uk/files/2013/06/Addressing-the-poverty-premium.pdf>

<sup>3</sup> Consumer Futures, March 2013, p8

<sup>4</sup> Ibid.

CAB clients' stories show how relatively small charges for public water and sewerage services force people on low-incomes into debt and hardship.

We see how lack of internet access or a landline telephone creates extra costs and extra barriers for clients trying to contact service providers, not just private sector services, but even those public services which are supposed to help vulnerable people in times of need.

Our cases show how the lack of access to basic banking services and credit facilities force poorer people to use costlier, less flexible credit options like payday loans. We find that payday loans companies still fail to look at people's circumstances when approving loans, or when they move to recover debt. We also find evidence of low-income households falling victim to unfair charges by credit brokers.

Throughout the report, we see examples where one debt leads to another, creating a vicious circle that can lead to people being unable to afford food.

The poverty premium works in complex ways. CAS believes we need a holistic approach to tackle its causes and deal with its effects. This report concludes by proposing a series of round-table discussions involving regulators for each sector, service providers, and governments. Such round-tables could be tasked with creating policy actions to tackle the discrimination suffered by the poorest households. We suggest some points for consideration based on the selection of people's experiences as recorded in this report.

## **Accessing services – mobile phones**

Previous research has shown that people in poverty are more likely to use pay-as-you-go options for mobile phones, and that pay-as-you-go charges tend to be higher per unit than those for customers on contracts, adding to costs.<sup>5</sup> These extra costs have a real impact on the ability of people with low incomes to access services.

- ▶ A South of Scotland CAB reports that a client has run out of credit while trying to make a crisis grant application over his mobile phone. He has come to see if he can use the Bureau's phone. He and his wife have been left without any support due to a delay in payment of benefits. They have custody of their young grandchild. The client refused the offer of a food parcel but suggested he may reconsider over the weekend.

Calls to service providers are often lengthy and reliance on mobiles can cause difficulties due to poor reception and battery life.

- ▶ An East of Scotland CAB reports of a client who works part time as a cleaner and thinks he is paying too much tax. He completed a Tax Return some weeks ago but has had no response. He asked to use the phone at the Job Centre to call the Tax Office but was told they are not for public use. Unfortunately the phones at the Bureau were down on the day the client arrived. The adviser tried to use the client's mobile but eventually had to give up as the call was draining his battery and the signal was very poor.

Services designed for low-income households, such as Crisis Grants and other social

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5 Consumer Futures, March 2013, p23

security benefits, that rely on lengthy telephone calls, perversely discriminate against the poorest households and can work to exacerbate their poverty. Moreover, as the second case above shows, access to general services which are dependant upon such communications can also serve to indirectly discriminate against people on low incomes.

In some cases, service providers have made adjustments to take account of this situation. For example, following a campaign by the Poverty Alliance and others, the Scottish Government announced that calls to NHS 24 made from a mobile phone would be made free of charge.<sup>6</sup> Additionally, Ofcom has recently advocated for the introduction of 03 numbers which can be used in place of chargeable 08 numbers to allow organisations to provide contact numbers which do not cost extra for the caller.

## **Accessing energy tariffs – lack of internet and banking services**

Low-income households are more likely than others to use prepayment meters (PPMs) for their energy supply.<sup>7</sup> PPMs are often used by consumers as a budgeting tool as they allow for more control over what is spent on energy. More commonly though they are installed by energy suppliers in order to recover debt.<sup>8</sup> A range of concerns exist regarding PPMs, including that they are not the cheapest way to pay for energy, that consumers may be left without any energy, and there is no ability to spread high winter costs over the year. The use of PPMs is growing – especially in Scotland – with over 500,000 PPM electricity accounts and over 300,000 PPM gas accounts at the end of 2013. This amounted to 21% of all electricity accounts and 16% of all gas accounts in Scotland at the end of 2013.<sup>9</sup>

After campaigning by CAS and others, the energy regulator Ofgem took action to address price discrimination against PPM users, who were paying inflated costs far above the additional costs of supplying them. Such action saw the differentials between PPM and other tariffs diminish. However, price data from 2012-2015 show that PPM tariffs were on average 5% to 10% higher than standard credit tariffs which in turn were 5% to 10% higher than direct debit tariffs. Ofgem suggests that such differentials may be on the rise again as recent price reductions are less likely to be seen for PPM customers. Ofgem is due to report on this issue later in the year.<sup>10</sup>

Discrimination against those on low incomes is also apparent in cases presented to the CAB service. The present market relies on consumers having the ability to research tariffs and identify and secure the best deals. But access to that information is heavily dependent on internet access. We have previously reported that only half of CAB clients with a benefits issue have internet access at home.<sup>11</sup> This leaves them unable to carry out

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6 Anti-poverty campaigners welcome free NHS24 calls, Poverty Alliance press release, 23 January 2013 [http://www.povertyalliance.org/news\\_pubs/press\\_releases/nhs24\\_pr](http://www.povertyalliance.org/news_pubs/press_releases/nhs24_pr)

7 Citizens Advice and Citizens Advice Scotland, Topping Up or Dropping Out, October 2014, p13 [http://www.citizensadvice.org.uk/topping\\_up\\_or\\_dropping\\_out](http://www.citizensadvice.org.uk/topping_up_or_dropping_out)

8 60% of PPMs are installed to recover debt see Ofgem, Prepayment review: understanding supplier charging practices and barriers to switching Ofgem, June 2015, p5 [https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment\\_report\\_june\\_2015\\_finalforpublication.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/prepayment_report_june_2015_finalforpublication.pdf)

9 Ofgem, Domestic Suppliers' Social Obligations, December 2014, p30 <https://www.ofgem.gov.uk/ofgem-publications/92186/annualreport2013finalforpublication.pdf>

10 Ofgem, Prepayment review: June 2015 op cit. p16

11 Citizens Advice Scotland, Offline and Left Behind, May 2013 <http://www.cas.org.uk/publications/offline-and-left-behind>

reasonable research on available tariffs. As the Consumer Futures report argued, it is insufficient for service providers simply to make information available and assume that all people can access it equally.<sup>12</sup>

- ▶ A North of Scotland CAB reports of a client who is a carer and in full-time work. The client is on a prepayment meter and is in fuel poverty. However, he cannot contemplate moving to a cheaper tariff, firstly because he cannot afford to have the meter removed with costs of over £50, and secondly because he is not computer-literate and so cannot access this means of easing his fuel costs. He also fears the risk of missing a direct debit payment.
- ▶ An East of Scotland CAB reports of a single pensioner with a disability and low income on a standard energy tariff. He wanted to change to a cheaper tariff, but the energy supplier advised that this would not be possible as the client did not have a bank account and so could not pay by direct debit. This was despite the fact that the client had a record of regular payments and both his accounts for gas and electricity were in credit.

As these cases show, even if poorer households were able to carry out research on lower tariffs, they would often still be unable to take advantage of them because of a lack of basic banking facilities. Moreover, suppliers' cheapest tariffs tend to be internet-only tariffs which again discriminate against low-income households (see Table 1) .

**Table 1 – Tariffs differentials 3<sup>rd</sup> March 2015**

	<b>British Gas</b>	<b>E-on</b>	<b>EDF</b>	<b>NPower</b>	<b>Scottish Power</b>	<b>SSE</b>
<b>PPM</b>	£1,292.65	£1,224.60	£1,256.94	£1,303.13	£1,239.50	£1,266.54
<b>Direct Debit</b>	£1,180.56	£1,154.56	£1,180.24	£1,190.47	£1,172.04	£1,186.52
<b>Saving compared to PPM</b>	£112.09	£70.04	£76.70	£112.66	£67.46	£80.02
<b>Differential as % of DD</b>	9	6	6.5	9	6	7
<b>Online</b>	£1,121.50	£1,110.17	£1,023.89	£973.55	£1,156.47	£1,174.48
<b>Saving compared to PPM</b>	£171.15	£114.43	£233.05	£329.58	£83.03	£92.06
<b>Differential as % of online</b>	15	10	23	34	7	8

**Source:** Collated from publicly available tariff information sources accredited by Ofgem<sup>13</sup>

Table 1 shows the different charges available for various tariff types across the main energy suppliers in early March 2015 and that PPM offerings were up to 34% (£329 p.a.) more than online tariffs and up to 9% (£112 p.a.) more than Direct Debit charges. To put that in

<sup>12</sup> Consumer Futures, March 2013, p56

<sup>13</sup> Based on annual usage of 13,500 kWh for gas and 3,500 kWh electricity

context, £329 is 2% of the annual Minimum Income Standard for a single person (2014).

As the Consumer Futures report showed,<sup>14</sup> low-income groups are also more likely to be among the 40-60 per cent of households classified as 'sticky' customers (non-switchers), who often end up on high 'legacy' tariffs. This has a massive impact on the fuel bills of some of the poorest and most vulnerable consumers. As the Consumer Futures report argues:

*"This last phenomenon [high legacy tariffs] has not been accidental but is part of a cross-subsidy that allows companies to offer lower tariffs to attract new customers from among more active consumers, and thus a systematic transfer from a less active, and on average lower-income, group to a more active and higher-income group."*

In other words, people on low incomes who are unable, or less likely, to switch because of the circumstances of their poverty are subsidising discounts for wealthier consumers who can pay by Direct Debit and who can afford internet access. Poor households pay a high price as a result.

## **Accessing other services – lack of internet access**

We highlighted above how lack of internet access acts as a barrier to low-income households looking to access the cheapest energy tariffs. It also makes it difficult to simply communicate with service providers which can bring its own costs, as described in Case 5.

- ▶ An East of Scotland CAB reports of a client aged 83 who was experiencing a sudden increase in the cost of electricity. The client was sure this had come about because his storage heater consumption had been put on a daytime tariff, instead of the off-peak tariff he previously had. The client was unable to get his energy supplier to properly deal with the issue, as he was disadvantaged by not using the internet and had to rely on phone calls and letters. Even after the intervention and assistance of a CAB adviser, the energy supplier had still not sent tariff details to the client two weeks after he had visited the bureau.

Disappointingly, an increasing reliance on online services also appears to be designed into some public services set up to help the most vulnerable.

- ▶ An East of Scotland CAB reports of a client in severe financial difficulties. She has no gas or electricity and no money for her meter. She has received a food parcel but has no power to cook with. She has a three-year-old son but has no relatives in the area that she could stay with until her heating is back on again. The CAB adviser tried to help the client access emergency support from the Scottish Welfare Fund, but was told that SWF claims could no longer be done over the telephone, but either by submitting the form online or by handing in a paper copy at the local office.

The Scottish Welfare Fund is not the only example. The Warm Homes Discount to help eligible pensioners with the costs of their energy supply is administered by the DWP, while the non-pensioner element is developed and delivered by energy suppliers themselves.

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14 Consumer Futures, March 2013, p24

While the intent behind this is to provide extra support to low-income households, CAB clients' experiences show its operation can, in some instances, have the effect of excluding the poorest due to lack of internet access.

- ▶ A South of Scotland CAB reports that a client has had a letter from her energy supplier telling her that she has to re-apply for her Warm Home Discount and must do so online. She does not have a computer. No alternative was offered and there was no phone number given.
- ▶ A South of Scotland CAB reports that a client has received information about claiming the Warm Homes Discount online. The client does not have internet access and is not comfortable using the internet. He would like to know if there is anything the CAB can do to help.

We know that around a fifth of all households in Scotland lack an internet connection<sup>15</sup> and that the lowest income groups are least likely to have one.<sup>16</sup> Therefore targeting assistance to low-income households through schemes based on internet access would, at least in some instances, serve to exclude those very households from such assistance.

## Standing charges – energy services

In 2013, the energy regulator took action to simplify tariffs and to ensure that suppliers informed consumers of the cheapest deals available to them.<sup>17</sup> This was welcomed by CAS, as it moved away from a system of two-tier pricing that discriminated against low users.

However, as well as single-tier unit prices, Ofgem instructed suppliers to also apply a standing charge to consumers. In effect a standing charge can operate to penalise low users and can cause real difficulties for low-income households.

- ▶ A West of Scotland CAB reports of a client disputing a debt to a supplier of £738.95 for gas. The client advises that he does not use gas and, indeed, his gas meter has been capped. The supplier confirms that the client would still need to pay a standing charge of £1.92 a week even though his gas has been shut off.
- ▶ An East of Scotland CAB reports of a client who has been receiving gas bills from a supplier, initially addressed to the previous tenant, and then in his name, despite the meter being capped several years ago. No heating or appliances in his privately-rented property ran on gas. He had spoken to the supplier after an unfriendly visit by the meter man. The supplier confirmed that it was charging £109.50 a year plus VAT for a utility that was not being used.

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15 Ofcom, The Communications Market Report: Scotland, 2015  
<http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr15/>

16 Office of National Statistics, Internet Access Quarterly Update, May 2014, Table 6b  
[http://www.ons.gov.uk/ons/dcp171778\\_362910.pdf](http://www.ons.gov.uk/ons/dcp171778_362910.pdf)

17 Ofgem, New standards of conduct for suppliers are the first step, Press release, 27 August 2013  
<https://www.ofgem.gov.uk/publications-and-updates/new-standards-conduct-suppliers-are-first-step-simpler-clearer-fairer-energy-market>

- ▶ An East of Scotland CAB reports of a client with M.E. who has never used gas in his house. Five years previously he had paid several hundred pounds to the gas supplier, who had presented the bill despite the meter showing zero consumption. As the client was ill and unable to concentrate, he paid the bill and asked that the meter be capped, thinking that this would solve the problem. He has now been sent a postcard through his door threatening to disconnect his gas and advising there would be a charge of £54. The CAB adviser spoke to the supplier who confirmed that they had introduced daily standing order charges in line with industry standards.

Ofgem has stated that there is nothing to prevent suppliers from setting these standard charges at zero, and that some smaller suppliers are doing this.<sup>18</sup> The experiences above demonstrate how standing charges can accumulate when they are applied, which can cause real anxiety for vulnerable consumers, often forcing people into debt for utility services they may not even use.

## Charges and reductions for water and waste water services

Energy bills are not the only ones which can contain standing charges for utility services that push poor households into debt and additional costs. Each year, local authorities set rates of council tax. Households pay both the council tax and a separate annual charge for using public water and sewerage services. This charge is collected by the local authority with the council tax and it is then passed on to Scottish Water.

Households on very low incomes are able to claim a council tax reduction, which can account for up to 100% of the cost of council tax. However, the maximum reduction available on water and sewerage charges is just 25%. As demonstrated in the cases below these small utility charges can soon add up, causing real difficulties for low-income households.

- ▶ A South of Scotland CAB reports of a client who cares for an elderly person with a disability. She is facing difficulties as her social security payments into her bank account are being reduced by overdraft payments. On going through her money advice and debt management process, the client was advised that a deduction of £3.65 per week from her benefit payment by her local authority probably related to water and sewerage charge not covered by her council tax reduction.
- ▶ A West of Scotland CAB reports of a client who has just come out of hospital after three weeks following an operation for cancerous growth on throat. On getting home he has found a Charge for Payment for £330 council tax debt delivered by Sheriff Officers. He had assumed that his council tax reduction covered water charges and so he had ignored letters from the local authority. The CAB adviser contacted the local authority who confirmed that the debt related to charges for water and sewerage.
- ▶ An East of Scotland CAB reports of a client who has received a court summons regarding council tax arrears. The arrears arose because the client was not aware that water and sewerage charges were not covered by the council tax reduction scheme.

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18 Ofgem's tariff reform, Letter in The Guardian, 2 September 2013  
<http://www.theguardian.com/money/2013/sep/02/ofgem-tariff-reform>

Previous research by Consumer Futures indicated that up to 20% of households are in water debt in Scotland.<sup>19</sup> It also suggests water bills rank as a low priority for households. It has been suggested this may be because of the perceived 'low impact' of non-payment as water supplies cannot be cut off, but it can also arise from people's lack of awareness of the ongoing liability to pay water and sewerage charges, especially if they are in receipt of council tax reduction.<sup>20</sup> Many people in low-income households make an assumption – perhaps not unreasonably – that if the social protection system judges their income too low to make a contribution to local services through council tax, then it is also too low to make a contribution to water and sewerage services.

As can be seen from the cases above, these small debts often spark collection action by the local authority, involving costly use of Sheriff Officers and court time. This can be a source of extreme anxiety to clients and can mean additional costs. For example, when summary warrants are sent out by Sheriff Officers, the debtor incurs a further financial penalty which automatically increases the amount due by 10%.<sup>21</sup>

While the legal process can add costs, it can also provide a degree of protection and – often with the help of CAB advisers – create an opportunity for clients to come to an arrangement to pay off the debt in a way that takes account of their circumstances.

However, this legal process can now be by-passed in some local authority areas. A Department for Work and Pensions scheme called Water Direct is currently being trialled by Inverclyde and Fife councils.<sup>22</sup> The scheme allows local authorities to take separate third party deductions from people's benefits to cover water and sewerage debt, and an additional deduction to cover current charges if the customer is not keeping up with payments. These deductions are in addition to council tax deductions and other debt repayments, such as rent. CAB cases show these deductions may be taken without any warning or without any consideration of ability to pay, pushing people into very vulnerable situations. Such unexpected or unaffordable deductions also increase the likelihood of default on other payments and may incur resultant costs.

- ▶ An East of Scotland CAB reports of a client in receipt of Income Support every fortnight who has noticed that the amount she received today was lower than normal. She rang DWP and was informed that deductions of £8.62 a week for water and sewerage were being made by Water Direct. She had not been made aware of this. Along with other deductions for council tax and social fund repayments, she was now getting £86 instead of £144.80. She is a lone parent with four daughters. No checks were made on her ability to pay.

CAS has commissioned research to better understand the circumstances and experiences which lead low-income consumers into water and sewerage debt. Reporting later this year, this will explore consumer understanding and awareness of water charges, their attitudes towards payment and the impact of water debt on consumers.

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19 Consumer Futures, Keeping your head above water, February 2014, p.8  
<http://www.consumerfutures.org.uk/reports/keeping-your-head-above-water-a-study-into-household-water-debt-in-scotland>

20 Ibid.

21 Consumer Futures, Keeping your head above water, February 2014, p.61

22 Consumer Council for Water, Background briefing on Water Direct  
<http://www.ccwater.org.uk/waterissues/currentkeywaterissues/waterdirect/>

## Lack of basic banking services – direct debit and credit

We have already seen how the lack of access to basic banking services can serve to exclude low-income households from lower-priced tariffs in the energy market. It causes other problems too.

The proportion of low-income households without bank accounts has fallen sharply, from nearly a quarter in the late 1990s to just 5% a decade later as basic bank accounts were developed to include ‘unbanked’ consumers.<sup>23</sup>

Those without access to banking services, or only very basic services, may face additional charges for making simple financial transactions. For example, in Case 13 above, the client was able to come to an arrangement to pay off the debt accrued from water and sewerage charges. However, in order to make payments at the Post Office, he had to purchase a payment card from the debt collection firm at a cost of £3.25 and make further payments of 90p for each transaction. A similar situation is seen in Case 16 below where the client faced regular transaction costs of £2-3 while repaying council tax arrears. These are costs that would not have fallen on someone with access to a direct debit facility. Such examples, along the second case below, show how different aspects of the poverty premium can combine to compound people’s poverty.

- ▶ A North of Scotland CAB reports of a client, living in a very remote part of the country and relying on buses, who has lost his seasonal job. He wishes to pay off council tax arrears and only has a Post Office account. He cannot set up a direct debit, and so is charged £2-3 every time he makes a payment at the Post Office using the bar code on council tax bills. In trying to meet his liabilities this client is punished financially. If he had a higher income, he could afford a direct debit through a bank account. His poverty penalises him.

Lack of access to decent credit and banking services forces people to use other options with less flexibility, less control and increased costs.

- ▶ A South of Scotland CAB reports of a client coming in to request a food parcel for himself, his wife and his three children. The client had taken out a loan for £207 with a high street lender. The client had agreed to pay the loan back in weekly amounts and provided his debit card details. The client missed the first repayment as he had no funds in his account. The lender proceeded to remove the full amount owed, leaving the client in need of a food parcel for himself, his wife, and their three children.

Previous research by CAS on payday loans has shown how payday lenders have used Continuous Payment Authorities to recover money from clients without trying to explore other repayment options first, causing unnecessary hardship to already vulnerable households.<sup>24</sup>

In their Good Practice Customer Charter,<sup>25</sup> payday lenders promised they would: ‘*Carry out a sound, proper and appropriate credit vetting for each loan application to check you can afford the loan.*’ Despite this, over 65% of respondents to our payday loans survey said that

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23 Consumer Futures March 2013, p40

24 Citizens Advice Scotland, Payday Loans: A Mayday Call, November 2013

<http://www.cas.org.uk/system/files/18.11.13%20Payday%20Loan%20Paper%20DG%20Monday%2025th%20version.pdf>

25 Ibid.

their lender did not check their personal finances to ensure they would be able to repay the loan at the end of the agreement.<sup>26</sup>

However, we did find that clients themselves were aware of what they had signed up to. Over 75% of respondents said they were clear about how the repayment method worked and how much the loan would cost.<sup>27</sup> This shows that – far from being careless with their finances – people on low incomes appear to be ensuring they have the information they need to try to budget effectively.

The Financial Conduct Authority imposed new rules on payday lending in January 2015, which put a cap on the charges that a lender can impose. This was as a result of the evidence that a number of organisations, including CAS, provided that showed poor practices in the market. Since this date, the number of payday lenders in the market has decreased, the number of loans provided has fallen, and the number of people seeking advice is diminishing. However, while low income consumers are less exposed to poor payday lender practices, this does not reduce their need for credit or improve access to low cost mainstream credit. There is also emerging evidence of a rise in alternative high cost lending, such as guarantor loans and home credit.

One of the results of the pay day loan cap may be that low-income households need to shop around for credit. This may be causing the increase in the use of online loan brokers – and a subsequent rise in the number of complaints about these brokers.<sup>28</sup> We uncovered numerous examples from the 12 months to February 2015 where CAB clients have been charged inflated upfront fees for broker services – even when the client does not take out a loan.

- ▶ An East of Scotland CAB reports of a client who has no money at all. He used a payday lender broker company to research a loan of £500. The client did not take out a loan, but his bank account was emptied due to broker fees. The client has been given a food parcel and has been awarded a crisis grant from the Scottish Welfare Fund.
- ▶ A West of Scotland CAB reports that a client's partner recently made an online application for a payday loan, and they are now being bombarded with emails and phonecalls from various payday loan companies. The couple did not actually receive loans from any of these companies. The companies have also been taking various amounts of money from their bank account, presumably as loan brokerage fees, ranging from £5 to £80, and totalling £233.70.
- ▶ An East of Scotland CAB reports of a client who had contacted a company for a loan. The client did not realise that this company was a broker. They charged a fee of £69.75 which they took out of his bank account the following day even though they had said it would take up to 62 days. This caused the client to become overdrawn and he incurred £75 in bank charges. The client tried to contact the company the following day to cancel his membership and ask for a refund but all he got was a recorded message. He had to email the company and they replied that it would take up to 30 days to process his refund. He did not receive the refund at 30 days, causing the client severe hardship.

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26 Ibid.

27 Ibid.

28 Financial Ombudsman Service, Ombudsman warns consumers about payday loan middlemen, Media Release, 19 August 2014

<http://www.financial-ombudsman.org.uk/news/updates/payday-loan-middlemen-2014.html>

It is clear that many loan brokers have often treated their customers unfairly: in two-thirds of the complaints it investigated, the Financial Services Ombudsman agreed that the consumer had been treated unfairly, while in the remainder of cases the fees had already been refunded.<sup>29</sup>

The FCA has now created new rules that came into effect in January 2015, banning credit brokers from charging fees to customers.<sup>30</sup> This is welcome, but it fails to deal with the legacy issue of those low income people who have already fallen victim to the unfair actions of brokers.

## **Summary and areas for further discussion**

Our research shows that much more needs to be done to tackle the various causes of the poverty premium. This report, previous work, and further work to be undertaken by CAS, will help develop understanding of the various factors at work and allow for a more informed discussion aimed at the development of effective solutions.

CAB clients' experiences show how companies and markets continue to operate in ways which discriminate against low-income households. They show how the added costs of being in poverty often result in a spiral of debt and reduced income as other elements of the poverty premium – such as the financial costs of debt recovery – start to kick in. The high social cost paid often includes crisis and reliance on emergency support.

Where these causes cannot be immediately dealt with, efforts are required to design, or re-design, interventions to mitigate against their impacts. In particular, public services such as the Scottish Welfare Fund or the Warm Homes Discount should be designed in ways which ensure they serve those they are supposed to protect.

Governments, business and regulators must continue their focus on these issues and increase their efforts to develop holistic solutions based on the lived experiences of CAB clients and others living in poverty.

These efforts must be seen as ongoing work streams rather than a set of one-off policy interventions. As people's situations and markets continue to change, the nature of the poverty premium can change. It must therefore be subject to ongoing scrutiny.

We believe that Citizens Advice Scotland is in a good position to facilitate round-table discussions with service providers, regulators and policy makers, on the poverty premium, using our evidence to show where action is required and how those actions might be designed and put into practice.

This report raises several areas that could be considered alongside others in such round-table discussions. These are considered below.

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29 Financial Ombudsman Service, Payday lending: Pieces of the picture, August 2014  
[http://www.financial-ombudsman.org.uk/publications/policy-statements/payday\\_lending\\_report.pdf](http://www.financial-ombudsman.org.uk/publications/policy-statements/payday_lending_report.pdf)

30 Financial Conduct Authority, PS14/18: Credit broking and fees, December 2014  
<http://www.fca.org.uk/news/ps14-18-credit-broking-and-fees>

### ***Accessing energy tariffs – lack of internet and banking services***

As outlined above, Ofgem has in the past taken welcome action to protect low-income households reliant ON prepayment meters. But CAB clients' stories show that people in poverty are still barred from accessing the cheapest tariffs due to:

- a) charging for replacement of PPM,
- b) lack of access to information on pricing due to limited internet access,
- c) lack of access to internet-only tariffs,
- d) lack of access to direct debit-only tariffs due to poor access to banking services.

Ofgem, the Competition and Markets Authority and energy companies should consider what further action can be taken to eliminate such discrimination in the market.

### ***Accessing other services – lack of internet access and mobile phones***

Services based on internet access and long, costly telephone calls present a significant barrier for bureau clients. This is an issue in relation to accessing and engaging with support services, resolving disputes and dealing with debt issues.

The Scottish Government's move to scrap mobile charges on calls to NHS 24 is a good example of how services can be adapted to meet people's needs and circumstances. An accessibility audit of other services designed to support people on low incomes could provide similar action points.

With support and dedicated resources, local authorities, JobCentres and Scottish bureaux could potentially provide internet and telephone access points for people who need to access services.

### ***Standing charges – energy services***

Changes to the tariff pricing structures put forward by Ofgem have helped eradicate some elements of discrimination against low-use consumers. But clients' stories show that standing charges can lead to problems for the poorest households, often leading to the accumulation of energy debt even when they are not using energy.

One possible solution could be to eradicate standing charges where people are not using supply, or to further consider the potential impacts of setting standing charges at zero as some companies have already done.

### ***Charges and reductions for water and waste water services***

It is clear that water and sewerage charges are causing hardship for many of the poorest households, leading to unforeseen debt and resultant additional charges. Public understanding of water charges should be addressed as clients facing difficulties are often unaware of their liability. CAS is currently undertaking research into this. Another area to explore could be the extension of the Council Tax Reduction to include these charges, increasing the possible reductions from a maximum of 25% to a maximum of 100%. It would be useful to know the cost implications of such a measure and how these may be

offset by savings in terms of debt collection efforts. Further research on this would be welcomed.

***Lack of basic banking services – direct debit and credit***

The lack of direct debit facilities for many people on low incomes is placing additional costs and burdens on CAB clients. Many of them use a variety of payment cards to carry out financial transactions, at a cost far higher than would be incurred through normal banking services. It is clear that further efforts are required to develop solutions that would make transactions easier and lessen the costs involved.

We are seriously concerned about the actions of many credit brokers in the market. Action by the Financial Services Ombudsman (FSO) and Financial Conduct Authority (FCA) should make a difference, but we believe there is ample evidence of unfair conduct persisting. A round-table discussion could build on the experience of other market failures such as the mis-selling of Personal Protection Insurance, to find solutions that deter future unethical conduct and allow fast-track compensation for those who have been unfairly treated by brokers.

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