FABIAN SOCIETY

COST CUTTERS

A PLAN TO TACKLE THE POVERTY PREMIUM AND MAKE MARKETS WORK

Ben Cooper

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Ben Cooper is a research manager at the Fabian Society.

Like all publications of the Fabian Society, this report represents not the collective views of the society, but only the views of the individual
writer. The responsibility of the society is limited to approving its publications as worthy of consideration within the labour movement.

About Fair By Design

Fair By Design is dedicated to reshaping essential services such as energy, credit, insurance and payments so that they don't cost more if you're poor – also known as the poverty premium. We collaborate with regulators, government and industry to design out the poverty premium. Fair By Design's Venture Fund provides capital/funding to grow new scalable ventures to innovate the market and design out the poverty premium. Ascension manages the Fair By Design Fund. Find out more at fairbydesign.com

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About the report

This report analyses the impact of the poverty premium and unfair industry practices in the markets for essential goods and services such as energy, water, financial services, broadband, and food; sets out why markets, regulators and the government have failed low-income households; and makes recommendations to tackle the poverty premium and make markets work for low-income families.

To analyse the impact of the poverty premium and unfair industry practices, and to develop recommendations to tackle it, the author undertook a literature review, a series of in-depth expert interviews, a roundtable with key stakeholders, and analysis of the poverty premium data at constituency level.

This report is largely UK-wide. However, certain recommendations are not. Water policy and regulation is devolved to Scotland, Wales and Northern Ireland. However, Ofwat is the economic regulator for the water sector in England and Wales. As a result, the recommendations on a water social tariff and on the water regulator will apply to England and Wales, but not Scotland or Northern Ireland. Energy policy is devolved to Northern Ireland and the recommendations on energy in this report will only apply in England, Wales and Scotland. The exception is recommendation 3.1 affecting the Warm Home Discount, as there is a separate scheme in Scotland. The Equality Act does not apply to Northern Ireland.

CONTENTS

SUMMARY 1
INTRODUCTION 7
THE POVERTY PREMIUM 10
WHY MARKETS, REGULATORS AND THE GOVERNMENT FAIL 14
RECOMMENDATIONS 22

SUMMARY

We all rely on the market for essentials, such as energy, financial services, water, internet access and food. But these essential markets are failing low-income families every day – and are exacerbating the cost-of-living crisis. Millions are forced to pay higher prices or go without *because* they have a low income. This 'poverty premium' is the clearest example of how markets for essentials are designed in a way that treats low-income individuals differently and unfairly.

The poverty premium affects a quarter (24 per cent) of all British households. According to new analysis of the latest data from 2022, it cost each household in poverty £444 per year on average. The poverty premium is highest in the West Midlands (£466), North West (£466) and the North East (£458), and lowest in London (£421), South East (£426), and East of England (£433). It is slightly higher than average, at £449 per year, for poor households in the most marginal constituencies that Labour lost in 2019.

There are four main reasons why markets, regulators and the government have failed low-income individuals:

- **Greater choice has not delivered**: Greater choice has been encouraged by government and regulators, but this can actually lead to higher prices for many. The design of markets mean better choices and more affordable prices are not available for many low-income families.
- **Fragmented markets have shifted risk onto consumers:** Markets have fragmented as businesses are increasingly able to target provision and prices. Individual characteristics and risks are used to set prices that result in new forms of price discrimination and exclusion that are harder for low-income consumers to overcome – despite the Equality Act 2010.
- **Government and regulators pass the buck:** The government and regulators have often neglected their role, which is to actively intervene to protect consumers and to make markets work. Consumers and campaigners are passed between departments and regulators, with no one taking responsibility or action.
- **Consumers lack representation and power:** Consumers, particularly those on the lowest incomes, are not 'in the room' when decisions are

made. Many policymakers and regulators do not understand the lives of people who are living in poverty or who are excluded from markets – and they have unrealistic expectations about how people act. Compared to businesses, consumer representatives lack the resources and staffing to ensure their voice is heard – and that regulations and policy reflects their needs.

The government should cut the cost-of-living for low-income households by tackling the poverty premium and making markets work better. The government should:

1. **Establish a consumer-focused cabinet committee to share information and develop coordinated interventions across all essentials markets.** The government should bring together relevant departments, regulators, consumer champions, businesses, and charities that represent and advocate for different equality groups.

2. **Announce a comprehensive 'Cost Cutting Plan' in the next King's Speech to support regulators to tackle the poverty premium and help families afford essentials.** The government should:
   - Ban energy companies from charging customers more if they pay on receipt of bill for gas and electricity.
   - Eliminate standing charges paid by those on prepayment meters.
   - Require energy companies to place customers at the end of their fixed contract on the cheapest deal offered to new customers.
   - Prevent companies from charging more to those who pay monthly for car and home insurance.
   - Ban price rises within the fixed term of mobile and broadband contracts.
   - Eliminate connection and early exit charges for those switching to a broadband social tariff.
   - Reduce prices for mobile and broadband customers once they are out of contract.
   - Remove barriers to supermarket loyalty cards and associated discounts offered.

3. **Reform social tariffs across energy, water and broadband through a step-by-step process based on shared principles.** The government should:

In the short term

- Increase the Warm Home Discount and expand the scheme to cover more people who need it.

- Implement a single water social tariff capping water bills at a maximum of 5 per cent of household income.
- Require all broadband companies to provide and promote a social tariff of their choice.
- Base entitlement for all social tariffs on means-tested benefits, disability benefits, and carer's allowance.
- Use benefit checks, calculators and application processes to allow individuals to seamlessly apply for social tariffs.

In the long term

- Introduce an energy social tariff, applying a 20 per cent discount to bills.
- Develop an industry minimum broadband and mobile connectivity social tariff in conjunction with low-income households.
- Work towards a scheme of automatic entitlement for social tariffs through data matching by DWP and HMRC.

4. **Encourage better and more inclusive financial services for low-income families to build long-term resilience.** The government should:
    - Develop a national financial inclusion strategy and require that the Financial Conduct Authority 'have regard' for financial inclusion.
    - Support the introduction of appropriate, zero-cost flexible ways to pay for essentials.
    - Expand access to affordable credit through credit unions and other purpose-driven finance providers.
    - Work with the insurance sector and the Financial Conduct Authority to ensure affordable insurance is available to all low-income individuals.

5. **Improve how regulators operate and advocate for the interests of consumers.** The government should:
    - Appoint consumer representatives to make up a third of the board of every regulator of essentials markets.
    - Require regulators to consult with a new consumer committee when setting their multi-year strategy, accountability metrics, and major policy interventions.
    - Require the Competition and Markets Authority to develop a shared measurement of the poverty premium across different essentials markets.

- Support the establishment of a scrutiny unit in the National Audit Office to hold regulators to account and encourage more consistent outcomes.
- Give all essentials market regulators concurrent powers to enforce the Equality Act 2010 – including socioeconomic inequalities.
- Introduce new consumer duties across all essential markets, backed up by statutory consumer advocates in financial services, telecommunications, and food.

A plan to tackle the poverty premium and make markets work for low-income families

Below is a timescale for the implementation of the report's recommendations.

Timescale	*Recommendations*
Start as soon as possible and complete within 12 months	• Establish a consumer-focused cabinet committee to share information and develop coordinated interventions across all essentials markets. • Announce a comprehensive 'Cost Cutting Plan' in the next King's Speech to support regulators to tackle the poverty premium and help families afford essentials. • Increase the Warm Home Discount and expand the scheme to cover more people who need it. • Implement a single water social tariff, capping bills at a maximum of 5 per cent of household income. • Require all broadband companies to provide and promote a social tariff of their choice. • Use benefit checks, calculators and application. processes to allow individuals to seamlessly apply for social tariffs. • Develop a national financial inclusion strategy, and require that the Financial Conduct Authority 'have regard' for financial inclusion. • Require the Competition and Markets Authority to develop a shared measurement of the poverty premium across different essentials markets.
Start as soon as possible and complete within one parliament	• Introduce an energy social tariff, applying a 20 per cent discount to bills. • Develop an industry minimum broadband and mobile connectivity social tariff in conjunction with low-income households. • Base entitlement for all social tariffs on means-tested benefits, disability benefits, and carer's allowance • Work towards a scheme of automatic entitlement for social tariffs through data matching by DWP and HMRC.

	• Support the introduction of appropriate, zero-cost flexible ways to pay for essentials. • Require regulators to consult with a new consumer committee when setting their multi-year strategy, accountability metrics, and major policy interventions. • Support the establishment of a scrutiny unit in the National Audit Office to hold regulators to account and encourage more consistent outcomes. • Give all essentials market regulators concurrent powers to enforce the Equality Act 2010 – including socioeconomic inequalities. • Introduce new consumer duties across all essential markets, backed up by statutory consumer advocates in financial services, telecommunications, and food.
Start as soon as possible and complete within a decade	• Expand access to affordable credit through credit unions and other purpose-driven finance providers. • Work with the insurance sector and the FCA to ensure affordable insurance is available to all low-income individuals. • Appoint consumer representatives to make up a third of the board of every regulator of essentials markets.

INTRODUCTION

Households are now spending up to 50 per cent more for products and services compared to April 2022.[1] The recent cost-of-living crisis and fall in living standards has been unprecedented in living memory. And while the rate of inflation may have fallen, families are still struggling to pick up the pieces from the past two years as prices continue to tick upwards.

Global economic shocks, such as the Russian invasion of Ukraine, are the main cause of rapidly rising prices around the world – including in the UK. But people are also paying higher prices here *because* of unfair industry practices, or to compensate for market problems they did not cause.

With British Gas reporting record profits as a 'direct result of changes Ofgem introduced', while millions struggled to heat their homes last winter, it is easy to why the public have little faith in the markets they depend on for essential goods and services, and why they feel let down by the government and regulators who are supposed to manage these markets in their interests.[2] They are sceptical about a system that creates unnecessary, additional pressure on family finances.

And those on the lowest incomes are harmed the most. They are forced to pay higher prices for essential goods and services than their richer peers *because* they are on a low income.[3] This is called the 'poverty premium'. Markets for essentials such as energy, water, broadband, food and financial services are designed to treat low-income families differently and unfairly. For example, car and home contents insurance costs more if you live in a poor neighbourhood or if you pay monthly. As well as higher costs, it can also mean that people do not have their needs met adequately or are excluded altogether.

The Joseph Rowntree Foundation estimated that the poverty premium raised the minimum income required in 2013 for an acceptable standard of living by 10 per cent. [4] As a result, many of the 14 million people living in poverty today are experiencing even greater hardship and financial insecurity *because* of the poverty premium and market failure.

Recent government policies have attempted to mitigate the pressure on family finances. Substantial cash transfers have been made in the past two years: the Office for Budget Responsibility (OBR) estimated over £62bn has been spent on the energy price guarantee, energy bills support scheme, and cost-of-living payments.[5] But this was an expensive, short-term intervention that failed to provide adequate support to many on the lowest incomes.[6] It ended in March 2024, and is unlikely to be repeated owing to current fiscal

circumstances. Crucially, government policy has failed to directly address the poverty premium and the root causes of high, rising prices.

In contrast, governments around the world have grasped the potential of reshaping markets to cut costs, allow people to keep more of their own money, and promote financial security. The Biden administration in the US has targeted 'junk fees' and utilised a 'whole of government' approach to lower costs and make markets work better for Americans (see Box 1).[7] Canada requires businesses to include compulsory fees and charges in the upfront price presented to purchasers.[8] In Spain, Australia, and other countries, social tariffs have been provided for energy; in Portugal, they exist for energy, water and sanitation.[9] These examples show that solutions to the cost-of-living crisis can be more sustainable and targeted than those implemented in the UK.

This report sets out how the UK can address the poverty premium and make markets work for low-income families. It sets out the scale of the poverty premium before looking at the reasons why markets, regulators and the government fail families. We identify a number of recommendations to help people to keep more of their money in their pockets and rebuild financial security for all consumers.

Box 1: The Biden Administration's approach to lowering costs

Families in the United States have been hit hard by high inflation. Even though the inflation rate has fallen since its peak, 64 per cent of Americans in 2023 thought lowering costs should be an extremely important priority for the president and Congress, with 59 per cent saying the same for protecting consumers from corporate bad practice.[10]

In response, President Biden argued that it was time for corporations to 'stop the price gouging' and that the 'consumer [deserves] a break'.[11] His administration has been willing to use the power of the federal government and regulations to tackle high and unfair costs so people can keep more of what they earn. Since 2021, the Biden administration has started to implement rules to:

- Reduce overdraft fees and non-sufficient fund fees, which are charges on transactions declined at the point of payment. They currently cost consumers around $14.5bn per year.[12]

- Tackle rental application fees that add over $100 per apartment, working with private companies to show all charges up front – and supporting states to cap or ban them entirely.[13]
- Prevent internet and mobile companies from charging exit fees when an individual decides to switch to another provider.[14]

Using a 'whole of government approach,' the Biden administration has sought to reshape how markets and businesses operate in the US. Many of the interventions have delivered outsized benefits to those on the lowest incomes or who are economically vulnerable. Research has found Americans believe these efforts will be effective in lowering the costs they pay, and it is an attractive policy agenda for voters.[15]

There are clear lessons for a UK government that is still grappling with a cost-of-living crisis. Instead of sticking-plaster solutions, the Biden administration shows how a comprehensive strategy can deliver real financial benefits for low-income families.

THE POVERTY PREMIUM

The poverty premium affects a quarter (24 per cent) of all British households. According to new analysis of the latest data available from 2022, the poverty premium cost each household in poverty on average £444 per year.[i] This means the poorest families face extra costs equivalent to three months of typical energy bills (under the April 2024 price cap) *because* they are poor. It collectively adds up to £2.8bn per year in extra payments by low-income households to essentials providers.[16]

Some poverty premiums and market failures have a **broad** impact. The poverty premiums with the widest reach are:

- Not switching fuel tariff in the past two years – experienced by 68 per cent of low-income households. Until very recently, the global energy crisis had eliminated the impact of this premium as no deals were priced below the Ofgem price cap. However better deals are now becoming available, and the impact of this premium is expected to return.
- Higher car insurance premiums due to living in a deprived area – experienced by 60 per cent of low-income households.
- Higher home contents insurance premiums due to living in a deprived area – experienced by 54 per cent of low-income households.[17]

Some poverty premiums have an **acute** impact. The most expensive poverty premiums that effect more than 10 per cent of low-income households are:

- Higher car insurance premiums due to living in a deprived area – costing an extra £335 per year, an increase of £261 since 2016.[18]
- High-cost credit – costing an extra £201 per year (not comparable to 2016 due to a different methodology being used to calculate this poverty premium).
- Paying for household appliance insurance – costing an extra £158 per year, an increase of £26 since 2016.[19]

[i] This estimate and the constituency estimates below are based on data from 2022 by the University of Bristol's Personal Finance Centre. It does not take into account policy or market changes since the data was released because such changes cannot be mapped accurately across different constituencies.

- Payment 'on receipt of bill' (ie not via direct debit) for electricity and gas – costing an extra £106 per year, an increase of £63 since 2016.[20] This premium is set by Ofgem and the price cap, so can change every three months.

Evidence suggests that these are underestimates of the impact of the poverty premium, since many people will 'go without' essentials because they cannot afford the extra costs.[21]

Unequal impacts

The poverty premium is unequal in its impact, even between different low-income households. Certain groups with protected characteristics are more likely to be in poverty, and are more vulnerable to paying additional costs. For example:

- 37 per cent of people from Black and ethnic minority backgrounds are in poverty. They are more likely to pay higher costs for energy, credit and insurance than other low-income households. Area-based premiums affect Black and ethnic minority households more as they are more likely to live in deprived areas.[22]
- 42 per cent of single parents are in poverty. They are more likely to use prepayment meters, to pay to access their cash, and to not have insurance.[23]
- 31 per cent of households with a disabled person are in poverty. They are more likely to be underinsured, use prepayment meters and pay on receipt of energy bills (rather than by direct debit).[24]

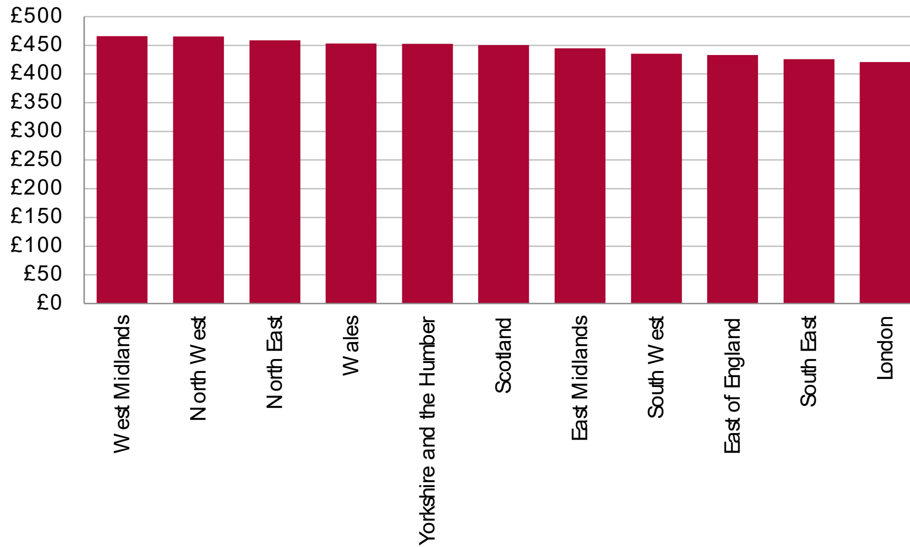
Geographical inequality

Our calculations estimate the cost of the poverty premium for the average low-income household to be £444 per year. However, the poverty premium differs slightly by region.

As Figure 1 below shows, it is highest in the West Midlands (£466), North West (£466) and the North East (£458). It is the lowest is London (£421), South East (£426), and East of England (£433).

FIGURE 1: THE AVERAGE ANNUAL COST OF THE POVERTY PREMIUM IS HIGHEST IN THE WEST MIDLANDS AND NORTH WEST, AND LOWEST IN LONDON.

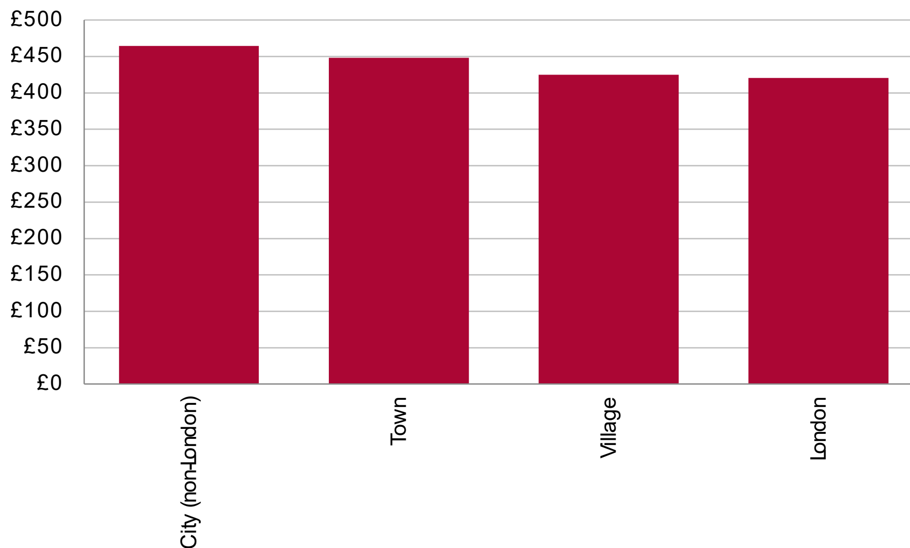
Poverty premium, annual cost per low-income household



Source: Author's analysis of parliamentary constituency level data from the University of Bristol's Personal Finance Research Centre.

FIGURE 2: THE AVERAGE ANNUAL COST OF THE POVERTY PREMIUM IS HIGHEST IN CITIES OUTSIDE OF LONDON, FOLLOWED BY TOWNS AND THEN VILLAGES.

Poverty premium, annual cost per low-income household

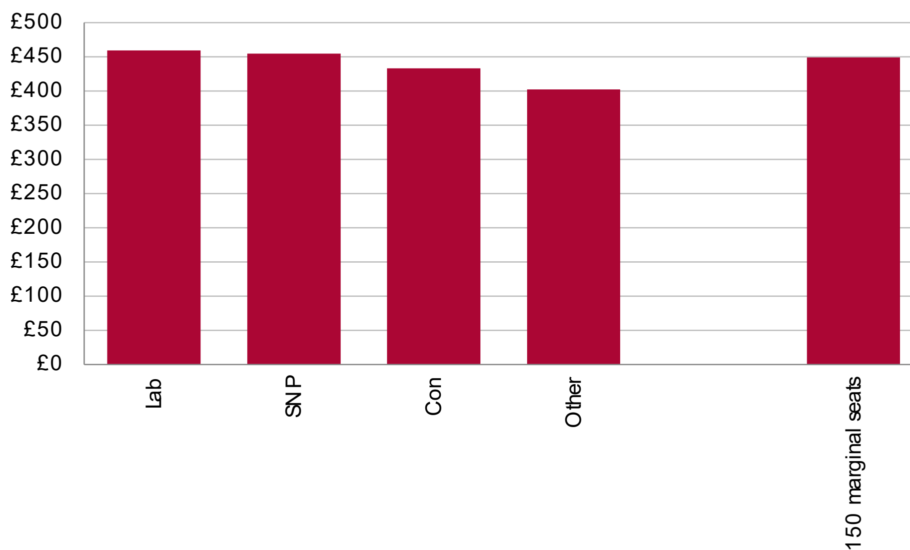


Source: Author's analysis of parliamentary constituency level data from the University of Bristol's Personal Finance Research Centre.

For those living in cities (excluding London), the average low-income household faces an annual poverty premium of £465 per year – compared to £448 for those living in towns and £425 for those living in rural areas.

The cost-of-living will be an important consideration for political parties at the next election, with the poverty premium a significant driver of it. Our analysis finds that low-income households in seats won by Labour in 2019 experienced the largest poverty premium (£459 per year). This is followed by the SNP (£455 per year), the Conservatives (£433) and other political parties (£402 per year). Previous Fabian Society analysis identified 150 seats in Great Britain that will likely make up the key battleground seats at the next election.[ii] And our new analysis finds that the per low-income household poverty premium in these marginal seats is slightly above average at £449 per year.

FIGURE 3: THE AVERAGE ANNUAL COST OF THE POVERTY PREMIUM IS HIGHEST IN SEATS THAT LABOUR WON IN 2019 – AND THE POVERTY PREMIUM IS SLIGHTLY HIGHER IN KEY MARGINAL SEATS.



Source: Author's analysis of parliamentary constituency level data from the University of Bristol's Personal Finance Research Centre.

[ii] This is based on the old boundaries, not the new ones that the next election will be fought on. Poverty premium data only exists for the old boundaries. It is unlikely that this analysis of the poverty premium would change dramatically.

WHY MARKETS, REGULATORS AND THE GOVERNMENT FAIL

The poverty premium shows that markets for essentials fail low-income families. Businesses overcharge millions of people, often requiring individuals to pay more to subsidise cheaper deals for others and to grow company profits – or be excluded from the market altogether. This clashes with most regulators' consumer protection objectives, and the commitment of the current government to 'tackle consumer rip-offs and bad business practices'.[25] This failure of markets to serve millions of people fairly is the responsibility of regulators and the government.

Greater choice has not delivered

In recent years, choice in many markets for essentials has proliferated. Greater choice can sometimes benefit consumers, including low-income households. For example, the provision of own-brand or basic products in supermarkets offers a range of choices for people to access lower prices.

Government and regulators have encouraged consumers to make more choices – and to make choosing easier. They have introduced annual reminders before the end of contracts, cut the time it takes to switch providers, and implemented more transparent pricing.[26] This is based on economic theory that assumes consumers will always be 'rational' and make choices about the best deal for them.[27] There is an expectation that everyone will be an active consumer, constantly reviewing and shopping around.

But this approach to markets is flawed. It implies that consumers who do not switch are fair targets to be overcharged and ripped off. One in seven people are overcharged because they do not switch regularly, costing them

over £1,100 extra per year – and those on the lowest incomes are twice as likely to be paying this 'loyalty penalty'.[28] Citizens Advice has argued this loyalty penalty "isn't driven by inflation or other rising costs for firms" but "baked into pricing models, exploiting consumers that don't switch for profit."[29]

The push for greater choice does not reflect everyday life for individuals and families – or their wishes about how markets should operate. Too much choice can be counterproductive, creating difficulties for consumers – especially if pricing is opaque or unclear. It can lead to higher prices and costs, particularly for vulnerable or disabled customers.[30]

Complicated choices and pricing structures can generate 'overload' where the right decision is hard to make, and individuals end up not choosing at all. Many effectively opt out as a result of inertia and indecision (see Box 2).[31] Despite the push by government and regulators to encourage greater choice, there is a wealth of evidence to suggest many people are not acting as expected:

- Most people do shop around for better prices, but a large proportion do not: 50 per cent said they only did it 'sometimes' or 'almost never' for energy, 45 per cent for broadband, 35 per cent for home insurance, and 29 per cent for car insurance.[32]
- 39 per cent of consumers are unaware that they can be overcharged if they do not choose to switch providers in essentials markets.[33]

Box 2: Complexity in broadband markets

Of all the essentials markets, broadband has a particularly large number of providers. Yet in 2023, just 14 per cent said they had changed broadband supplier or contract in the past 12 months – despite bills increasing by over 14 per cent in spring 2023.[34]

One reason may be the complexity of contracts and pricing strategies offered by broadband companies. Unlike in other markets 'fixed' often does not mean fixed during a broadband contract, with prices rising by the Consumer Prices Index (CPI) plus a fixed percentage every spring. This makes it hard for consumers to understand what they will pay over the course of the whole contract, and makes it more difficult to compare prices in an attempt to secure the best deal.[35]

There are a number of reasons why people are not acting on the choices offered to them:

- More affordable prices aren't accessible because of how markets are designed. If businesses deem certain groups more costly or of higher risk, then greater choice is only a theoretical benefit – and people are unable to access better prices in practice. More than 10 per cent of those earning less than £20,000 could not find better prices for energy, broadband and mobile services, and banking – a larger proportion than any other income group surveyed.[36] Switching to a social tariff for broadband often incurs high charges, deterring households from accessing discounted prices.
- Life gets in the way. Low-income individuals are often time-poor, while living in poverty is literally exhausting.[37] Many low-income individuals are incredibly effective at managing their budgets, but having to browse price comparison websites and compare deals in every essentials market is another burden. Social tariffs are not always easily identifiable on these websites, with some failing to present them automatically – making it harder to access cheaper prices.[38] These difficulties can be dealt with easily by not engaging with the market, even if it incurs additional cost.
- Greater choice can be anxiety inducing for many, especially for disabled people or those with mental health conditions. Consumers feel less satisfied when they spend a lot of time analysing deals and reaching a decision.[39] Research found 28 per cent of disabled people said their finances were negatively affected because it was difficult to engage providers.[40] Not switching can be an expensive necessity for disabled people worried about poor customer service from a new supplier with its impact on health and wellbeing.[41]

Ultimately, for many, greater choice is not a solution; it is a symptom of the wider failure of markets and regulators to serve consumers' interests. Many people see an economic system designed to require constant reviewing and switching to be unfair and stressful – particularly for low-income, older, and vulnerable people. The Competition and Markets Authority seems to agree, stating that people should not be 'required to spend significant lengths of time negotiating a good deal – or feel that they must be 'on guard' against being ripped off'.[42]

Overall, increased choice favours active, healthy and wealthy consumers. It exacerbates the effects of market structures which already favour those consumers, excluding those who cannot or do not meet that standard – or requiring them to pay more. It is an individualised solution to a broken system.

Fragmented markets have shifted risk onto consumers

Markets for essentials have been fragmented into millions of individualised relationships between consumers and providers. This matters because there has been a shift away from shared pooling of risks and shocks towards individual responsibility (the so-called 'Great Risk Transfer').[43] Previously, institutions such as the welfare state or insurance companies spread the risk across the whole community. Now, individuals are required to bear risks and impacts of shocks through engagement with essential markets.

Businesses are increasingly able to target provision and prices according to the risks of individuals. Despite anti-discrimination laws, certain individual characteristics can be used to set prices that result in new forms of (direct and indirect) price discrimination that are harder for low-income families to overcome. If businesses deem certain groups to be more costly to serve or of higher risk, those groups must pay higher prices – or go without. These practices have embedded existing inequalities further – with low-income, ethnic minority, and disabled people often excluded from services. This is particularly true in financial services. For example:

- Many low-income individuals can only pay monthly for car or contents insurance. They are charged, on average, a combined £127 more per year for both products than those who pay annually for the same cover. Individuals are required by insurers to take out a high interest loan to cover the costs of future cover – even though there is little risk for providers, because they can stop insurance cover mid-year if it is not paid for.[44]
- Black and ethnic minority drivers pay £250 per year more for car insurance compared to white people, likely in addition to the poverty premium for those who have low incomes. Data driven pricing and algorithmic bias is likely to contribute to these higher premiums, but the issue is incredibly opaque as it is difficult to analyse providers' pricing strategy or use of data.[45]
- Many high street banks exclude low-income individuals from bank accounts with overdraft facilities or from accessing affordable credit. Instead, people with low incomes are forced to rely on high-cost credit, including 'buy now, pay later' and rent-to-own. Decisions about whether an individual can access mainstream affordable credit are unclear. The increasing use of data and algorithms risks entrenching existing inequalities in access to credit.[46]

Technology has exacerbated these challenges. As people are expected to make more decisions, technology has made it harder to understand why prices and products are offered in the ways that they are – and to get a good

deal. Firms capture data and use it to offer different prices to different consumers, and charge more to those less likely to notice higher prices or less able to do something about it.[47] As a result, targeted prices are becoming more common in ways that may negatively affect low-income people:

- Online retailers offer low initial prices to 'entice' consumers before imposing hidden charges to push up a product's final price. The practice is widespread across the entertainment, hospitality, transport and communication markets and costs consumers £1.6bn per year (although the Digital Markets, Competition and Consumers Bill, which is in its final stages, is set to ban mandatory fees).[48]
- Supermarket loyalty cards are attractive to many people looking to cut costs. But they have hidden downsides: they can prevent consistent, understandable and comparable pricing in shops. Some retailers are also coming under criticism for hiking up prices days before offering loyalty card holders a 'discount' at the older price. Discounts are subsidised by charging more to those who don't have a loyalty card, many of whom won't qualify – because they don't have a smartphone, email address and home address, or don't want to hand over personal data.[49]

The problem of individualised markets is set to grow: the prevalence of big data, AI, and dynamic pricing could lead to ever more targeted and personalised prices across all markets, new poverty premiums as a result, and greater discrimination. The Equality and Human Rights Commission (EHRC) has the power to ensure business' compliance with the Equality Act 2010 with respect to pricing or provision of essentials for those with different protected characteristics.[50] But it lacks the resources to do so. This contrasts with competition law, which is the responsibility of numerous regulators.

The government and regulators pass the buck

The government and regulators have often neglected their role to actively intervene to protect consumers and to make markets work for low-income individuals and families. Both have the ability to intervene, and have done so on occasion. For example, in 2021 the Financial Conduct Authority (FCA) took action against the 'loyalty premium', where insurers constantly increase renewal prices for loyal customers, in the home insurance market. But this example reveals how much of an exception intervention is: it only happened after a 'super complaint' was made by Citizens Advice, and came after years of inaction, despite widespread knowledge of the problem. A

similarly sustained effort was required to get Ofgem to take steps to end the prepayment meter premium in energy.

Often, regulators cite a desire to avoid 'social policy' as a reason why they cannot act. Essentially, if a change involves distributional, affordability or fairness trade-offs, regulators are more likely to consider it outside of their remit. But the boundary between 'social policy' and 'regulatory policy' is blurred.[51] In reality, regulators make distributional and fairness trade-offs every day – including when they fail to act.[52] For example:

- Ofgem has increased electricity standing charges faster than inflation. Between 2021 and 2023, these increased by £100 per year due to regulatory decisions that deliberately transferred more costs onto standing charges, away from unit rates.[53] This disproportionately affects low-income households. High charges reduce the amount of energy that can be accessed by low-income households, with many self-disconnecting their homes as a result.[54] For people on prepayment meters, this can be particularly challenging: charges will build up over the summer, when no energy is consumed, and must be paid off in the winter before any energy can be accessed.
- The FCA has failed to investigate the drivers of the poverty premium in insurance.[55] The FCA is the only organisation that can collect the data necessary to both understand this potential poverty premium in detail and how to tackle it. As a result, low-income consumers continue to face higher costs for insurance.

The government does not have to assume the role of a bystander. Regulators can – and should – be held accountable, but the government has made their task more difficult. Ministers avoid responsibility by stating there is not enough evidence for action or that they cannot infringe on a regulator's independence.[56] Decisions with affordability or distributional consequences are often delegated to regulators without clear objectives or prioritisation.[57] In the run up to Russia's invasion of Ukraine and the energy crisis that followed, Ofgem repeatedly attempted to obtain guidance from ministers. They needed to know whether customers should be required to cross-subsidise others in financial difficulty through their bills, or whether this was a question of tax and spend.[58] They failed to get direction, contributing to the recent affordability challenges.

The result is confusion.[59] There is no shared understanding of the problem. The Competition and Markets Authority commissioned a feasibility study on measuring the poverty premium but did not proceed any further.[60] Consumers and campaigners are passed between departments and regulators, with no one taking responsibility. A patchwork of support has been created, with interventions such as discounted prices for essentials

(social tariffs) varying widely – even within the same essentials market. And different regulators can take wildly different viewpoints on the same or similar issues: in home insurance market, the FCA has acted on the loyalty premium; but in the broadband and mobile markets Ofcom has ruled out similar action.[61]

Unless something changes, this problem will only grow worse. Each regulator faces complex decisions to prepare their market for the future, balancing the need for investment, promoting competition and innovation, and ensuring affordability and consumer trust. If no one takes responsibility for key decisions that affect low-income individuals and families, opportunities to protect consumers and cut costs will be missed, and markets could evolve to fail them even more than they do now.

Consumers lack representation and power

One of the reasons why it is easy for government and regulators to pass the buck is because consumers, particularly those on low incomes, are not 'in the room' when decisions are made. Policymakers and regulators are often disconnected from people living in poverty or who are excluded from the markets.[62] Too often they have unrealistic expectations about people's lives, forgetting that policymakers and regulators are unusual in having time to think in detail about markets and how to get a good deal.[63] They may struggle to understand why increasingly individualised, complicated markets don't work for low-income families, or why people make the choices they do. For example:

- Ofgem implicitly encourages people to pay for their energy through direct debit – and that works for millions of people. But some prefer to pay after receiving a bill (standard credit) as doing so is perceived to offer greater control and security, and the risk of losing money is lower.[64] This preference is currently penalised through a policy that permits a £106 per year premium for paying via standard credit. Many people do not know they are paying the extra money.[65] While Ofgem has proposed reducing the premium paid by standard credit customers, the proposal seeks to maintain a penalty to encourage people to move the more 'efficient' payment method of direct debit, without considering the downside of this.[66]
- Ofcom has declined to protect the 8.5 million broadband and mobile customers from being overcharged once their contract has come to an end. The regulator argued that enough measures were in place to encourage people to make better choices (such as annual reminders), despite clear evidence that consumers were not benefitting from them.[67]

To correct for a lack of knowledge, regulators and government departments do engage with consumers. And there are a few structures to attempt re-balance power and representation:

- Statutory advocates have the resource and independence to represent the consumer across the operation of markets and the whole supply chain, not just the direct interface between businesses and individuals. Where they exist in energy and water, they have highlighted key issues for consumers. But they are not fully integrated into the decision-making process of regulators, and struggle to ensure consumer voices are heard – and do not exist at all in financial services, food or telecommunications market.
- The FCA is advised by the Financial Services Consumer Panel and a consumer network supposedly representing the interests of all financial services consumers, including individuals and small businesses. [68] But the panel lacks representation from actual consumers (so-called 'experts by experience'), and there are questions as to whether the senior leadership adequately engages with, and listens to, ordinary consumer voices.
- The Competition and Markets Authority (CMA) requires every board meeting 'to start with an external voice' as part of a broader strategy to increase the frequency and depth of engagement with consumer bodies and other organisations. But beyond this, relationships with consumer groups are not integrated into the regulator's work.[69]

Across the government and regulators, there is a deeper cultural problem: consumers don't get the priority and status that they deserve. Consumers are the critical group that underpin the success and legitimacy of markets for essentials. But government and regulators often treat consumers and their representative groups as just another stakeholder to be managed.[70] Consumers and their representatives lack resources and staffing compared to other stakeholders, such as financial services firms or energy companies. And they get fewer meetings with decision makers: the former chair of the FCA reported that in 2021, Treasury ministers met financial businesses and their lobbyists nearly 200 times, but only met consumer organisations fewer than a dozen times.[71]

RECOMMENDATIONS

Markets for essential goods and services are failing families. People are forced to pay higher prices because of bad industry practices, poor decisions or regulatory inaction, while poverty premiums are exacerbating the cost-of-living crisis for the poorest. It is clear that we need to reshape how our markets work.

Markets should work in the interests of households across the country, especially those on the lowest incomes. Everyone should have confidence in the markets they rely on, and markets should support the financial security of all consumers. This requires a new vision that informs how government and regulators act – in partnership with each other, with businesses and consumers. Below we set out how that vision should differ from the current approach.

The position now	*Under a new approach*
The government abdicates its responsibility on key consumer issues such as the poverty premium	The government recognises its responsibility to deliver, support, and coordinate action
Consumers lack power and representation, unable to hold bad practice to account or get regulators to listen to them	Consumers and their representatives challenge poverty premiums and bad consumer practices – and hold decision makers to account
A largely 'hands-off' view of markets, followed by expensive interventions to deal with the consequences of high costs	Actively reshaping markets to strengthen the financial security of families, and to prevent high costs from occurring in the first place
Switching delivers benefits for active consumers, subsidised by higher prices for those who do not shop around	Active consumers secure lower prices for themselves, but also deliver fair outcomes and prices for those who do not switch or lack market power (otherwise known as the 'coat-tails' approach)

A patchwork of regulation and responsibilities, with different approaches to similar challenges and consumers uncertain about how their interests are protected	A consistent focus across all regulators on their role in protecting consumers, with similar approaches and shared knowledge to tackle exploitation or unfair practices
Businesses incentivised to exclude or charge higher prices to those deemed less profitable, considered more expensive to serve, or who do not switch. In doing so, they undercut businesses who want to do the right thing	Business incentives, set by the market and government, align towards competing on innovation and inclusive products, good outcomes, and doing the right thing for all consumers

Based on this new approach, the government must set the overall direction and intervene where necessary, collaborate with regulators, and work in partnership with businesses, consumer representatives, and equality groups. This section sets out the actions to be completed within 12 months, within one parliament, and within a decade. Below they are summarised to those timescales, followed by detailed recommendations:

Timescale	*Recommendations*
Start as soon as possible and complete within 12 months	• Establish a consumer-focused cabinet committee to share information and develop coordinated interventions across all essentials markets. • Announce a comprehensive 'Cost Cutting Plan' in the next King's Speech to support regulators to tackle the poverty premium and help families afford essentials. • Increase the Warm Home Discount and expand the scheme to cover more people who need it. • Implement a single water social tariff, capping bills at a maximum of 5 per cent of household income. • Require all broadband companies to provide and promote a social tariff of their choice. • Use benefit checks, calculators and application processes to allow individuals to seamlessly apply for social tariffs. • Develop a national financial inclusion strategy, and require that the Financial Conduct Authority 'have regard' for financial inclusion.

	• Require the Competition and Markets Authority to develop a shared measurement of the poverty premium across different essentials markets.
Start as soon as possible and complete within one parliament	• Introduce an energy social tariff, applying a 20 per cent discount to bills. • Develop an industry minimum broadband and mobile connectivity social tariff in conjunction with low-income households. • Base entitlement for all social tariffs on means-tested benefits, disability benefits, and carer's allowance • Work towards a scheme of automatic entitlement for social tariffs through data matching by DWP and HMRC. • Support the introduction of appropriate zero-cost and flexible ways to pay for essentials. • Require regulators to consult with a new consumer committee when setting their multi-year strategy, accountability metrics, and major policy interventions. • Support the establishment of a scrutiny unit in the National Audit Office to hold regulators to account and encourage more consistent outcomes. • Give all essentials market regulators concurrent powers to enforce the Equality Act 2010 – including socioeconomic inequalities. • Introduce new consumer duties across all essential markets, backed up by statutory consumer advocates in financial services, telecommunications, and food.
Start as soon as possible and complete within a decade	• Expand access to affordable credit through credit unions and other purpose-driven finance providers. • Work with the insurance sector and the FCA to ensure affordable insurance is available to all low-income individuals. • Appoint consumer representatives to make up a third of the board of every regulator of essentials markets.

The government should:

1. Establish a consumer-focused cabinet committee to share information and develop coordinated interventions across all essentials markets

Departments and regulators can cut costs and make markets work better. But doing so requires coordination. Currently, the issue often falls between government and regulators. There is a lack of engagement with consumers and their representatives, who are often pushed between departments and regulators without being heard.

The government should establish a consumer-focused government committee to share information and develop coordinated interventions across **all** essentials markets. Chaired by the Secretary of State for Business and Trade, the committee would bring together relevant government departments, regulators including the Equality and Human Rights Commission, consumer champions, charities that represent and advocate for different equality groups, and businesses. It would end the buck-passing between the government and regulators, recognising that the boundary between the responsibilities of each is blurred and cooperation is required. Cross-cutting issues, such as how providers treat vulnerable consumers or the inclusive design of services and products, could be dealt with consistently across all regulators and markets.

This committee would guarantee consumer representation at the heart of government, social policy, and regulation – delivering beneficial challenge, scrutiny and coordination. The voice of typical consumers, particularly those with low incomes, would be integrated into every stage of the decision-making process. This would recognise that consumers are crucial to the functioning of markets, not just another stakeholder group to be managed alongside others. Consumer issues could be brought to the attention of regulators, the government and businesses before they became damaging to the wellbeing and financial security of millions. At least once a year, the committee should publish a high-level review of its work to provide transparency.

2. Announce a comprehensive 'Cost Cutting Plan' in the next King's Speech to support regulators to tackle the poverty premium and help families afford essentials

Families need urgent action to cut costs. They have endured more than a decade of stagnating living standards and the cost-of-living is still rising fast. There are very recent precedents for government led, targeted

interventions in markets to tackle the poverty premium and save consumers money. In March 2023, the Chancellor announced an end to the 'prepayment meter penalty' under the energy price guarantee, saving four million households around £45 a year until April 2024.[72] Ofgem were explicitly requested by the government to make this change permanent, and this was implemented in April 2024. In 2024, the government proposed amendments to outlaw 'sneaky hidden fees,' so-called 'dripped pricing', as part of the Digital Markets, Competition and Consumers Bill.[73] These interventions to defend consumer interests have not undermined any regulator's independence, or undermined economic stability.

The government should announce a comprehensive 'Cost Cutting Plan' in the next King's Speech to support regulators to tackle the poverty premium and help families afford essentials. Our estimates suggest a raft of measures could directly save nearly £220 per year for an average low-income household, as well as introducing greater transparency into essentials markets to further drive down costs for every family.[74] This should be done in partnership with regulators, recognising their specific expertise. The government would provide much-needed support, direction and cover to regulators, who could then focus on the implementation of reform.[75] Regulators would no longer need to worry about finding themselves on the wrong side of the divide between 'regulatory policy' and 'social policy'.

Ministers should publicly inform the relevant regulators of policy choices as part of the Cost Cutting Plan and request action to be taken within 12 months. This could be part of updated remit letters for every regulator. The government should be clear that if regulatory action is not taken, fresh legislation will introduce these changes (for example, in a future energy or financial services bill). It is highly unlikely that a new law would be required, as regulators tend to support the government's initiatives – even as they rightly protect their independence from ministers.

As part of the plan, the government should support regulators to:

- **Ban energy companies from charging customers more if they pay on receipt of bill for gas and electricity.** Ofgem should be largely neutral on any payment options, rather than seeking to encourage direct debit payments regardless of what families may wish for their own finances. This would be an extension of the proposals from Ofgem to reduce the standard credit premium. Providers should cover the cost of this policy change out of their own revenue and the April 2024 reduction in the price cap should not be altered as a result. Steps should be taken to fairly share the costs of the policy across all providers. Only if energy companies can prove substantial and genuine harm to their finances should the costs be borne by direct debit customers.

- **Eliminate standing charges paid by those on prepayment meters.** Providers would be required to offer a zero-standing charge tariff for customers with a prepayment meter. All costs would be paid through the unit rate, putting households in direct control over what they spend. The amount paid would thus reflect actual usage, whereas today, standing charges can accumulate during periods of low usage and then become a barrier to accessing energy when needed. This should not negatively affect vulnerable low-income, high usage customers, as Ofgem rules state they should not be on prepayment meters.
- **Require energy companies to place customers at the end of their fixed contract on the cheapest deal offered to new customers.** Customers who finish their contract would be put on a variable deal but would pay the cheapest price offered to new customers each month. This should place some downwards pressure on energy prices overall as existing customers use the leverage of those who switch to get a better deal – referred to as the 'coat tails' approach. Intervening now, before this switching poverty premium becomes widespread again, will minimise disruption to energy companies.
- **Prevent companies from charging more to those who pay monthly for car and home insurance**. The cost for insurance should be the same regardless of how often an individual pays for it. Providers would be barred from offering any interest-bearing loans to supposedly cover the costs of insurance. This would provide clarity to companies and customers, rather than relying on the FCA's Consumer Duty, that *may* allow firms to keep charging more to households who pay monthly.[76]
- **Ban price rises within the fixed term of mobile and broadband contracts.** Customers would pay the same price every month during the entire fixed term of a mobile and broadband contract – like fixed contracts in other markets. This would make it easier to compare prices between different providers and give people certainty over their budget. This would go further than current Ofcom proposals to prevent providers from using complicated inflation-linked or percentage-based terms to determine price increases.[77]
- **Eliminate connection and early exit charges for those switching to a broadband social tariff.** There should be zero costs to exiting a broadband contract if a household switches to a social tariff, no matter how many months are left in the original contract. The costs of eliminating these fees would be borne across the whole market. There is a partial precedent for this: Openreach, which manages the UK's broadband and telephone infrastructure, has previously waived wholesale fees when connecting a new customer receiving universal credit with no other earnings, although they left it up to

providers as to whether they passed the savings onto low-income customers.

- **Reduce prices for mobile and broadband customers once they are out of contract.** Customers should only be charged for the minutes, texts and data that they use following the end of a contract if that contract includes the cost of a device. This would prevent mobile companies from unnecessarily charging for the handset after it has been paid off if a customer does not switch providers. This lower price should be applied immediately following the end of a contract, so they are put on the best tariff automatically and not after three months as some providers currently require.[78] For broadband, out of contract customers should be automatically switched onto the best available deal offered by the company to new customers for the same line speed and package of services. While Ofcom have previously indicated they are not minded to do this, this recommendation is necessary for two reasons: Ofcom's proposed ban on unclear in-contract price rises and our above recommendation to ban price rises completely within contracts. These changes could make providers more likely to offer shorter contracts and increase the number of people who are out of contract, and need protection.[79]
- **Remove barriers to supermarket loyalty cards and associated discounts offered.** Cards should be available to everyone over 16 years old, and not be limited to just those who have smartphones, an email address, or a permanent address. Discounts should not be contingent on handing over personal data, as if often currently the case with loyalty schemes. This would help older people, those on the very lowest incomes, young people, and those concerned about data protection have access to the loyalty cards and the discounts they offer.

3. Reform social tariffs across energy, water and broadband through a step-by-step process based on shared principles

Social tariffs offer more affordable access to essentials for millions of low-income households. They are used worldwide as a targeted way to cut prices for those in need – largely low-income, vulnerable or disabled families. Social tariffs exist in the UK, but they are poorly targeted with inconsistent eligibility and generosity, and few families access them. They are not compulsory for broadband providers. There are only a limited number of Warm Home Discounts available for certain claimants. All water companies provide a social tariff, but support varies from provider to provider, and there are barriers to increasing take up.[80] This patchwork creates confusion across the essentials markets. And in most cases, the risk

of providing a social tariff is borne by individual providers rather than being shared, which can disincentivise widespread provision.

The government should reform social tariffs across energy, water and broadband through a step-by-step process based on shared principles. These principles should include:

- **Consistency**: the offer of support should be consistent for all families regardless of provider or where they live. National standards for eligibility and access should be established. There is a case for setting out how providers can go beyond the minimum standard (particularly in broadband); however, this is unlikely to be a priority consideration for regulators when establishing a consistent offer.
- **Ease of access**: there should be few barriers to accessing a social tariff for low-income families. Application processes should be quick and simple across all social tariffs, either requiring individuals to provide information only once or not at all (ie an automatic process like the Warm Home Discount for most eligible households). There should be no restrictions or costs for exiting a contract to switch to a social tariff. Providers, the government, and regulators should work together to secure as close to 100 per cent take up through effective data matching mechanisms.
- **Fairness**: providers share the financial risks of providing a social tariff fairly, so that no company is disadvantaged if they have a high number of customers who need one. The government, regulators and industry will need to co-create the funding and pooling mechanisms for each social tariff. They should recognise the need to avoid barriers to entry for new providers and to ensure company growth delivered through good service and innovative products.

Energy social tariff

3.1 Short term: Increase the Warm Home Discount and expand the scheme to cover more people who need it

The Warm Home Discount scheme currently provides £150 per year off electricity bills to eligible households. First, this should be increased to £185 per year, reflecting inflation since the introduction of the scheme. The government should then reverse cuts to the scheme that prevented over half a million disabled households from automatically claiming support: personal independence payments, attendance allowance or disability living allowance should be qualifying benefits.[81] Finally, every low-income family with potentially high energy costs eligible under 'Core Group 2' of the scheme should receive the support, rather than those who request support first (as companies only have a limited number of discounts).[82] We estimate

this would cost around £180m extra per year – and additional funding will be needed (see proposals below for a new energy social tariff for more details).

3.2 Long term: Introduce an energy social tariff, applying a 20 per cent discount to bills

An energy social tariff should replace the Warm Home Discount from 2026 and provide a percentage discount on energy bills. We recommend a 20 per cent discount on the price cap. If it was implemented today, we estimate it would cost around £2bn per year – and save the average eligible household just under £340.[iii] This is based on the April 2024 price cap, but the cost in 2026 would depend on the price cap then. If wholesale costs decline, the cost of the social tariff would also decrease. A percentage discount would protect low-income households from any future rises in energy prices – something a fixed monetary amount does not do. The discount should apply to both unit rates and standing charges.

All energy suppliers would be required to offer this social tariff. The discount should apply to both electricity and gas bills. It should be available as a separate fixed or variable deal, so customers have the freedom to select what works best for them. If a customer on a fixed contract becomes eligible for a social tariff deal and switches to it, they should be exempt from exit fees.[83]

Implementing an energy social tariff in 2026 will give politicians and civil servants two years to design, implement, and fund the energy social tariff – and ensure that the debt assistance, benefit checks and energy advice funded under the current Warm Home Discount scheme is maintained. This would require legislation, but it would not require a standalone act and could be attached to a future Energy Act.

To create a level playing field, every supplier should be able to access a pooled source of funding for social tariffs according to their needs. The risk would be shared across the entire market with no provider worse off for attracting a larger proportion of social tariff customers. Because of the likely scale of revenue required to fund an energy social tariff, a mixture of funding is likely to be required. Without any real-terms increase to energy bills, potential sources of funding could include:

- Scrapping capital allowances for new oil and gas developments, so companies no longer get corporation tax relief for the first year of operating rigs and platforms. This would raise an estimated £1.3bn per year.[84]

[iii] This assumes a 75 per cent take up rate, which is far higher than current take up of water social tariffs (39 per cent) or broadband social tariffs (8.3 per cent of eligible households).

- Maintaining customer contributions, as under the Warm Home Discount, which are currently around £19 per year per household, raising an estimated £475m per year.[85] Contributions could be continued for an energy social tariff. This rate was set in 2020, so should be increased in line with inflation for 2026.
- Diverting the amount raised by the 2023 supplier profit margin increase. This adds around £8 to every bill covered by the April 2024 price cap, raising around £220m per year. Ofgem considered this charge necessary to reduce the risk borne by suppliers – even though they are compensated separately for this.[86] The result is that suppliers are compensated twice, and can effectively bank the charge as additional profit which is available to be directed elsewhere.
- Maintaining the amount raised through energy bills to help providers deal with bad debts. This policy adds £28 per year onto non-prepayment meter bills for 12 months from April 2024 – raising over £670m a year. In the long term, the money raised by this increase should fund lower prices for those most in need – reducing the likelihood of bad debts being incurred in the first place.
- Reforming capital allowances for suppliers and distributors. Regulators have often overestimated the cost of capital, leading to consumers paying higher bills. Using more conservative estimates for the cost of capital, and reducing the amount of unspent capital expenditure that a company can retain, could unlock additional funding at no extra cost.[87]

Water social tariff

3.3 Short term: Implement a single water social tariff, capping bills at a maximum of 5 per cent of household income

A single social tariff for water should be introduced as soon as possible. Every eligible household should see their water bills capped at the same percentage of income. This would end the postcode lottery, whereby different discounts apply in different locations. For those in receipt of means-tested benefits, DWP should share data on household income to allow water companies to cap bills. People who are entitled to a social tariff but do not receive means-tested benefits would need to for self-declare their total household income. If the social tariff is targeted effectively to those households who are eligible, this would cost approximately £500m per year by 2030.

A single social tariff will require some pooled funding. Those providers with a particularly high proportion of customers needing support should receive additional adjustment funding to do so – without needing to raise the whole amount themselves. This pool is unlikely to require any extra contributions

from customers overall beyond what is raised through existing 'willingness to pay' assessments, used by providers to identify how much of customers' bills can be used for social tariffs. All water companies should be expected to contribute some of their profits to this funding pool, as five do now voluntarily for their individual social tariffs.[88] Any fines levied by Ofwat against companies should also be automatically directed to the funding pool, rather than going directly to the Treasury.[iv] At a time of rising public concern about water bills, the contributions from profits and fines will be necessary to unlock public support for customer contributions through bills under willingness to pay assessments. Considering the tough fiscal position, and the scale of support required for an energy social tariff (above), there should be no funding for a water social tariff from general taxation.

Broadband and mobile connectivity social tariff

3.4 Short term: Require all broadband companies to provide and promote a social tariff of their choice

Ofcom has the power to compel all telecommunications companies to introduce a social tariff, under the European Electronic Communications Code.[89] This requires the direction and consent of the Department for Science, Innovation and Technology. To date, no direction has been given and Ofcom has only pursued voluntary agreements. The Department should immediately give such a direction to Ofcom, and require any consultation to be undertaken swiftly.

Providers would be able to determine eligibility, the discount and the package of services that they offer as part of the social tariff, as is currently the case. A mandatory social tariff would remove any economic incentives for companies to not offer social tariffs. Ofcom should also require companies to promote their social tariff prominently in the new customer journey – and whenever an existing customer renews their contract.

3.5 Long term: Develop an industry minimum broadband and mobile connectivity social tariff in conjunction with low-income individuals

Ofcom should work with low-income families to design the best broadband and mobile data social tariff and then require providers to introduce it. In 2022, the Fabian Society recommended download speeds of up to 40mbps with a maximum retail price of £15 per month as a benchmark.[90] We

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[iv] While the Treasury receives the revenue from any fines, Ofwat frequently agrees an arrangement with water companies to provide redress to customers – rather than imposing a fine. This means the Treasury would not be worse off if fines were directed to social tariff customers or the social tariff pool.

estimated this would cost at least £430m per year. The social tariff should be technology neutral, covering both fixed-line and mobile data, to meet the needs of the household. The minimum standard should be updated regularly to account for developments in speeds and technology.

As with other social tariffs, funding should be pooled across the industry with each provider able to access the support it needs. Considering the windfall profits of recent years, funding should first come from an industry-wide levy on providers. If this levy is insufficient, other funding sources should be considered such as a small, fixed contribution from non-social tariff customers (similar to the current Warm Home Discount in energy), savings that result from Openreach and other wholesale providers reducing the cost of social tariff line rental, and a government contribution.

Consistent social tariff eligibility

3.6 Short term: Base entitlement for all social tariffs on means-tested benefits, disability benefits, and carer's allowance

Households in receipt of means-tested benefits, disability benefits, and carer's allowance should be entitled to all social tariffs. Every three months, any individuals who newly receive one of those benefits would be entitled to social tariffs for the following year. Checking every three months for new claimants would mean those individuals could quickly access social tariff support. Every 12 months, there should be a light-touch check that an individual is still entitled to social tariffs.

Applying consistent entitlements across social tariffs would ensure clarity compared to the patchwork that currently exists. Entitlement based on social security would target support to those most in need, as many who claim social security also face severe hardship or significant extra costs. It would be relatively easy to implement and roll out across all social tariffs, delivering help to as many people as possible quickly.

Box 3: Social security take-up

Basing entitlement for all social tariffs on means-tested benefits, disability benefits, and carer's allowance is the most appropriate way to ensure consistent social tariff eligibility. But just over 900,000 households in the poorest fifth of the population do not claim social security.[91] Many are entitled to do so: 880,000 eligible pensioners do not claim pension credit, for example.[92] As a result, they would be excluded from a social tariff.

The most appropriate solution would be to increase take up of existing social security benefits, so that every low-income household can access social tariffs. The Fabian Society has previously recommended improving the accessibility of income maximisation services that support people to claim all the social security they are entitled to.[93] Over the long term, claiming social security should be nearly automatic using government and third-party data to identify who is eligible.[94]

Social tariff take-up

3.7 <u>Short term</u>: Use benefit checks, calculators and application processes to allow individuals to seamlessly apply for social tariffs when completing a benefits check

Benefit checks, calculators and application processes should allow individuals to apply for social tariffs more seamlessly. This approach is already used by Anglian Water and avoids consumers having to fill in a separate form.[95] Individuals are required to make two clicks and answer a few extra questions to access both benefits and a social tariff simultaneously. Users give their consent to share data, and Anglian Water is informed which tariff they should get – with bills updated accordingly.

This should be rolled out to all social tariffs, allowing applicants to access them without extra (digital) paperwork. Participation should be part of the regulatory license to operate – and companies should be required to promote this application route clearly across the customer journey. For broadband and energy, applicants would be required to inform the government of their provider (although for the latter, relevant data is held by electricity network operators). Steps should also be taken to ensure that price comparison websites display social tariffs prominently alongside other deals and discounts making them easily identifiable.

3.8 Long term: Work towards a scheme of automatic entitlement for social tariffs through data matching by DWP and HMRC

Everyone entitled to social tariffs should see discounts to bills automatically applied to any household that is eligible, reducing the amount they have to pay without the need for marketing and application processes. This would require DWP and HMRC to match data to identify those who are eligible across energy, broadband and mobile, and water (which already happens for the customers of some water companies).

The transition from using the benefit checks and calculators to automatic entitlement based on social security entitlements may not take long. In energy, the Warm Home Discount is largely applied automatically through data sharing and matching – and could be extended quickly to cover other benefits. Some water companies have been in discussion around data sharing for this purpose, and the government has relevant powers in the Digital Economy Act 2017.[96] In broadband, automatic entitlement may take longer to introduce as there have been no prior discussions around data sharing and matching.

4. Encourage better and more inclusive financial services for low-income families to build long-term resilience

Financial services are crucial for low-income households, especially those with uncertain and unpredictable incomes. They can help provide financial security and allow people to smooth income and expenditure over the long-term. However, too often financial services lock out those who need their products the most. As we've seen throughout this report, financial services such as credit, insurance and the way we pay for things actively penalise those on the lowest incomes. Many are forced to rely on high-cost credit because they cannot access affordable loans elsewhere. The priority should be to encourage better and more inclusive financial services for low-income families to build long-term resilience. The government should:

4.1 Develop a national financial inclusion strategy, and require that the Financial Conduct Authority 'have regard' for financial inclusion

The government should develop a national financial inclusion strategy, and require that the Financial Conduct Authority 'have regard' for financial inclusion. The strategy should set out a vision of universal access to a basic package of accessible and affordable financial services – and consider how large financial providers can better service the whole community. It should also set out specific outcomes and timeframes, and appropriate

accountability mechanisms around implementation. A government taskforce should deliver this, working in tandem with and reporting to the broader consumer-focused ministerial committee (see recommendation 1).

An obligation to 'have regard' for financial inclusion would require the FCA to consider the needs of those who are excluded from financial services when setting regulations. As part of this, the FCA should have a duty to report to parliament annually on financial inclusion. This report could include:

- The state of financial inclusion in the UK, in both the markets that the FCA regulates and those on the boundary of its remit, identifying significant disparities between geographies, incomes, and protected characteristics;
- Measures that the FCA has taken to promote financial inclusion at every stage of the regulatory process, and any future work that could have any impact on the issue;
- Issues and suggested measures lying outside of its area of competence which could be taken up by government or other public bodies.[97]

4.2 Support the introduction of appropriate zero-cost and flexible ways to pay for essentials

The government should support the introduction of appropriate zero-cost and flexible ways to pay for essentials. They should be offered to customers at zero additional cost, preventing the creation of any new poverty premiums. These new methods should place control over the amounts and frequency in the hands of the payee, not the provider (as with direct debits), thereby allowing individuals to underpay and overpay bills.[98] Energy smart meters offer the opportunity for those on prepayment meters to build up an amount in the summer (when bills are low), which can be drawn down in the winter (when bills are higher). Social housing providers could be responsible for providing easier and more affordable access to white goods and furniture, paid by the tenant through a slightly higher rent over the longer term – rather than using high-cost credit.

These innovations should be piloted, and rolled out, so that everyone can access them. The government should remove barriers to this plan, which may include regulators' preference for 'efficiency' in payments. The Payments Systems Regulator and appropriate utility regulators should be directed to consider how greater flexibility, security and control is critical to consumers when making decisions. And 'buy now, pay later' products should be adequately regulated to give consumers the same protections as those who use credit cards.

4.3 Expand access to affordable credit through credit unions and other purpose-driven finance providers

The government should expand access to affordable credit through credit unions and other purpose-driven finance providers. To tackle financial exclusion, partnerships between mainstream financial institutions and purpose-driven providers of affordable credit should be encouraged – either through a system of transparent commitments, reporting and rating or through legislation. These partnerships could include providing capital for lending to customers or in-kind support such as premises (including in banking hubs) and back-office support.

In addition to private sector partnerships, local authorities and public bodies should trial payroll saving accounts with credit unions, including opt-out options. These will enable individuals to build up savings more easily, and for credit unions to have access to additional funding that can be lent out to individuals excluded by traditional finance providers. Subject to the completion of a successful pilot, a No Interest Loan Scheme should be rolled out across the country, providing access to credit to people in vulnerable circumstances who cannot access it elsewhere.

4.4 Work with the insurance sector and the FCA to ensure affordable insurance is available to all low-income individuals

The government should work with the insurance sector and the FCA to ensure affordable insurance is available to all low-income individuals. The first step must be greater transparency in current pricing and practices, including the extent of discriminatory pricing and compliance with the Equality Act. Without information about how practices such as individualised pricing and algorithmic bias affect insurance, little headway can be made in lowering the cost of insurance or tailoring coverage. The FCA should be required to conduct its own investigation and monitoring of discriminatory outcomes in insurance, publishing details on:

- The overall level of the poverty premium for car insurance and different groups in society, as well as the level of postcode and ethnicity premiums – and whether current different in prices are cost reflective.
- The extent to which the poverty premium can be tackled by the regulator alone and the extent to which it requires broader intervention from the government.
- How information about how premiums vary according to protected characteristics could be collected and made available publicly, without impacting premiums.[99]

The government and regulators can then design effective solutions to this poverty premium through collaboration with the insurance sector and other trusted intermediaries. Consideration should be given to workplace auto-enrolment in cheap insurance for cars or essential contents, learning from pensions and savings schemes.

New insurance products need to be underpinned by new models of sharing risk. Right from the start, consumer groups and charities must be involved in developing these products to overcome the significant lack of trust around financial services, especially insurance. If collaboration does not adequately tackle the higher cost of insurance for low-income consumers, the government should consider legislating. A financial services bill could restrict the use of certain risk factors, which unjustifiably drive high insurance premiums for people on low incomes – such as the use of postcodes.

5. Improve how regulators operate and advocate for the interests of consumers

Most regulators have a specific obligation or objective to act on behalf of consumers. Yet many struggle to do so. Consumers are not adequately heard or considered through the decision-making process.[100] The reality of how people interact with markets is not well understood by regulators, especially the experiences of those who are vulnerable or on a low income. Regulators need to rebalance representation so that the consumer experience is better understood and acted on in decisions to enable the market to deal with challenges such as decarbonisation, investment in critical infrastructure, and the use of technology.

The government should:

5.1 Appoint consumer representatives to make up a third of the board of every regulator of essentials markets

The government should appoint consumer representatives to make up a third of the board of every regulator of essentials markets. These non-executive directors should have a consumer affairs background and practical expertise, ideally working directly with vulnerable individuals, those with protected characteristics, and those on the lowest incomes. They should have the same legal duties, responsibilities and powers as every other non-executive director and should be appointed through the same public appointments process. But consumer representatives will likely provide a different perspective to other board members, which is crucial for ensuring consumer viewpoints or interests are considered from the top down in every regulator. Appointments to regulatory boards are staggered,

so opportunities to place consumer representatives on them may not be immediate – but they should be taken as soon as possible.

5.2 Require regulators to consult with a new consumer committee when setting their multi-year strategy, accountability metrics, and major policy interventions

The government should require regulators to consult with a new consumer committee when setting their multi-year strategy, accountability metrics, and major policy interventions. Each regulator should have an appropriately resourced and permanent consumer committee. People with lived experience of poverty and those with certain protected characteristics should be adequately represented – alongside representatives from statutory advocates and consumer groups. To ensure committee members with lived experience can participate fully, they should be adequately compensated for their time.

The senior leadership of a regulator (including non-executive directors) should be required to meet regularly with the committee to ensure policies and strategies are inclusively designed. And the committee should have the opportunity to set the agenda with the regulator, rather than just considering what the regulator wants to discuss. The government should consider awarding it powers to force regulators to look again at key documents and policies and propose specific alterations. The regulator would be required to respond publicly, and explain why they are adopting or rejecting changes suggested by the consumer committee.

5.3 Require the Competition and Markets Authority to develop a shared measurement of the poverty premium across different essentials markets

The government should require the Competition and Markets Authority to develop a shared measurement of the poverty premium across different essentials markets. The CMA would be required to restart its past work which looked at this issue, and utilise other organisations' attempts to develop a measurement.[101] Other regulators such as Ofgem and the FCA should be involved in the process, so it works for all markets and provides useful data across different customer groups.[v] If data gaps are discovered, the CMA should work with the Office for National Statistics or specific regulators to establish how these can be closed. A shared, official measurement of the poverty premium and its impact would allow progress to be tracked – and the data should be publicly released every year. This would enable proper independent scrutiny of market outcomes and the

v For example, the CMA should draw on the FCA's work on the overall poverty premium for car insurance as proposed in recommendation 4.4.

work of regulators. And it would help assess who is responsible for the issue – the regulator, the government or both.

5.4 Support the establishment of a scrutiny unit in the National Audit Office to hold regulators to account and encourage more consistent outcomes

The government should support the establishment of a scrutiny unit in the National Audit Office (NAO) to hold regulators to account and encourage more consistent outcomes. Currently, the NAO has responsibility for reviewing the work of regulators, but it does not do so in a way that is systematic and holistic. The unit would analyse, scrutinise and challenge regulators. As part of this scrutiny, regulators would be required to regularly explain their decision-making process, how they meet their stated objectives and promote inclusive markets, and how they engage consumers – especially those on the lowest incomes or with certain protected characteristics. The unit would also set out key challenges facing all regulators of essentials markets, including setting out a common set of standards for what or how to report when it comes to consumer outcomes and the poverty premium.[102]

Since the NAO is independent of the government and the civil service, and funded through parliament, this decision would be for MPs. But the government should indicate that it is willing to increase parliament's budget to pay for the unit. Establishing a specific unit for the scrutiny of regulators would create an additional, independent and public measure of accountability. This would enhance parliament's and the public's ability to scrutinise regulators and their decisions.

5.5 Give all essentials market regulators concurrent powers to enforce the Equality Act 2010 – including socioeconomic inequalities

The government should give all essentials market regulators concurrent powers to enforce the Equality Act 2010 – including socioeconomic inequalities. As part of this, the socioeconomic duty in Section 1 of the Equality Act would need to be enacted in England.[vi]

Responsibility for tackling discriminatory market outcomes and practices by firms would be shared between the individual market regulators and the EHRC, which currently has sole responsibility. Each regulator would be able to take relevant action in their market, utilising sector specific expertise and resources, and would coordinate with the EHRC around joint interventions. Adequate resources should be provided to ensure that these new concurrent

[vi] Section 1 of the Equality Act has already been enacted in Scotland and Wales.

powers can be effectively used, funded through an increase in the relevant levies and fees paid by businesses.

The government should expect regulators use these new responsibilities to actively promote the inclusion of individuals with protected characteristics or facing socioeconomic disadvantage in markets, rather than just avoiding negative outcomes. Concurrency will shape regulators to focus more about how they can tackle or prevent discrimination in their sector across all their work. This would work in similar way to concurrent competition powers shared between market regulators and the CMA.

5.6 Introduce new consumer duties across all essentials markets, backed up by statutory consumer advocates in financial services, telecommunications, and food

The government should introduce new consumer duties across all essentials markets, backed up by well-resourced statutory consumer advocates in financial services, telecommunications, and food. Regulators would be required to consult on the implementation of their new duties and how they can deliver higher standards in every market for essentials. Regulated firms would be required to maintain auditable records with the relevant duties. There are examples that these duties can draw on:

- The FCA's Consumer Duty, introduced in 2023, that sets out consumer protection standards, but does not cover those who are currently excluded from the market or who are charged more for being poor.
- Ofwat's dedicated licence conditions, introduced in 2024, for water companies aiming to transform the care given to customers – particularly those who need extra help.[103]

As markets become more complex, these new consumer duties would seek to guarantee a national minimum of consumer outcomes for everyone – regardless of income, geography, or if they have a protected characteristic.

Statutory champions are required to hold businesses and regulators to account on meeting these new duties. They should have the resource and expertise to do so. For financial services, telecommunications and food, the government should create new statutory consumer advocates as quickly as possible – and consideration should be given to a statutory advocate that scrutinises the work of the CMA.

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