



Paying the Price of Being Poor



The Bevan Foundation in partnership with Consumer Focus Wales, National Energy Action Cymru and Save the Children with additional material by the New Policy Institute

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Acknowledgements

The Bevan Foundation gratefully acknowledges the support of the Welsh Assembly Government's New Ideas Fund towards the costs of undertaking this project.

We would also like to thank Anne Crowley, Eleri Thomas and Sian Thomas, formerly of Save the Children Cymru; Nuria Zolle, National Energy Action Cymru, and Lindsey Kearton, Consumer Focus Wales for their very considerable help in arranging the discussions and writing up the findings. However the responsibility for any errors or omissions rests with the Bevan Foundation.

We are also grateful to all the participants in the discussion groups for sharing their ideas so freely. We have tried to reflect the various views expressed but the responsibility for presenting them in this report rests with the Bevan Foundation.

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ISBN 978-1-904767-38-1

Date: November 2009

The Bevan Foundation is a company limited by guarantee registered in Wales and a registered charity no. 1104191

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SUMMARY

1. About 3 out of 10 children in Wales lives in poverty. The Welsh Assembly Government is committed to halving child poverty by 2010 and eradicating it by 2020.
2. Low income households face hidden and additional costs accessing essential goods and services.
3. This report has identified some ways in which the Welsh Assembly Government and other bodies can ensure that low income households are not penalised accessing:
 - Education
 - Financial services
 - Fuel.
4. Four themes emerge across the chapters.
 - the importance of regulation, auditing and inspection;
 - the need for more and better information to enable households to make choices and exercise their rights;
 - the reduction of barriers that face low income households;
 - the importance of grants and other support.
5. The recommendations are:

Education

6. The Welsh Assembly Government should look to ensure that schools and local authorities support children living in poverty by meeting the costs associated with education as outlined in this briefing in line with the new duty placed upon them in the Children and Families (Wales) Measure.
7. Action to address the disadvantages faced by children from low income households because of the costs of education should be included in the Welsh Assembly Government's new Child Poverty Strategy.
8. Schools' compliance with these requirements and the steps they are taking to tackle child poverty should be monitored by Estyn within their new inspection framework.
9. While meals are still charged-for, schools and local authorities should work with welfare agencies to improve the take-up of Free School Meals. Schools should be expected to introduce cashless systems via plastic smart cards for school meal purchases as a means of reducing stigma and bullying, and increasing take-up. The Welsh Assembly Government and local education authorities need to investigate the funding implications for the introduction of cashless systems in schools
10. The Welsh Assembly Government should conduct a study into the feasibility of introducing a universal free school meal service for all school pupils across Wales, noting the contribution that leading child poverty organisations and the Free School

Meals Act in Scotland have made.

11. The Welsh Assembly Government should investigate the feasibility of:
 - a. reducing the costs of school uniform including the possibility of an all-Wales school uniform;
 - b. all-Wales or regional procurement for schools' extra-curricular requirements.
12. Training on the effects of income poverty on children in school and good practice in alleviating the problems should be included in Initial Teacher Training and the Continuous Professional Development of head teachers, teachers and school based staff (*see Tackling Child Poverty in Wales: A good practice guide for schools produced by the End Child Poverty Network Cymru*).
13. School governors should also receive training on child poverty and consideration should be given to combining schools' governing bodies to pool skills and 'social capital'.
14. Schools and local authorities should review their policies on charging and seek to minimize costs for parents. This policy should be informed by consultations with parents and pupils to seek their views.

Financial Services

15. Public service providers need to ensure that financial inclusion issues are considered at the design stage of service development – i.e. mainstreamed not just an afterthought.
16. The Child Poverty Solutions Wales Project should be extended to include financial inclusion or similar toolkit specifically focussed on financial inclusion should be set up.
17. Auditing bodies (e.g. Wales Audit Office) should improve and extend auditing processes to make them more externally focussed i.e. based on outcomes for citizens.
18. The Welsh Assembly Government should develop guidance on fair debt collection processes for all public service providers, building on work undertaken by the Office of Fair Trading for all debt collection.¹
19. The Welsh Assembly Government should offer greater support for third sector providers (as trusted organisations) to enable them to offer a 'package of financial services' for their customers (including bank accounts, advice and savings)
20. Financial service providers should use technological developments (e.g. text alerts) to improve people's awareness of banking services and help them to retain control over their finances.
21. The Welsh Assembly Government in partnership with Consumer Focus and others should develop a standard information pack on financial services that can be used by all of those working to support vulnerable people (e.g. building on the work of the

¹ http://www.offt.gov.uk/shared_offt/business_leaflets/consumer_credit/oft664.pdf

Financial Services Authority including their Money Guidance and MoneyMadeClear resources).

22. Financial service providers should offer more face-to-face, practical support for financially excluded consumers – building on existing community-based financial capability programmes.
23. The Welsh Assembly Government should explore the potential of tighter regulation of private landlords.
24. The Welsh Assembly Government should explore ways to incentivise community venues/local shops to accommodate free-to-use ATMs.

Fuel

25. More information should be provided to households about energy pricing and switching by energy suppliers.
26. There should be greater regulation of energy pricing (especially the social tariff) and sales activity by energy suppliers.
27. New payment methods, including methods that build on the Post Office network and Post Office account, should be developed.
28. Winter Fuel Payments should be developed so that they address child poverty and tackle the underlying problems of fuel poverty.
29. Micro-generation initiatives need to be carefully managed to ensure they can be taken up by low income households.
30. The Welsh Assembly Government should have a stronger voice dealing with UK government and bodies.

1. INTRODUCTION

Victoria Winckler, Bevan Foundation

Tackling poverty in Wales is a key objective of the Welsh Assembly Government. The One Wales programme of government says:

‘Our ambition is a Wales where everyone achieves their full human potential and everyone can live free from poverty, discrimination, fear or abuse.’

As part of this, the Welsh Assembly Government has adopted a number of targets to reduce or eradicate poverty, namely:

- To halve child poverty by 2010 and eradicate it by 2020
- To eradicate fuel poverty in vulnerable households by 2010 and from all households by 2018

In addition, the Welsh Assembly Government has 31 other targets related to child poverty.²

However, the extent to which the Welsh Assembly Government is able to reduce or eradicate poverty is constrained because it does not control some of the key determinants of household income, such as the National Minimum Wage, levels of taxation and major welfare benefits. This makes achieving income-based targets inherently difficult.

Although it is unable to influence household income, the Welsh Assembly Government is able to influence household expenditure. Evidence³ suggests that many low income households pay a ‘premium’ for everyday goods and services, for example because they are unable to buy in bulk or pay by direct debit. They thus suffer the ‘double burden’ of having a low income from which they also have high outgoings.

The Welsh Assembly Government has some influence over some elements of household expenditure, through its responsibility for various public services which charge households and individuals, its responsibilities as a purchaser of goods and services, and its governance role in relation to private and other public bodies. It can therefore contribute to reducing the impact of poverty on households by helping to reduce the disadvantage they experience simply because they have fewer resources.

The Bevan Foundation was awarded a grant from the Welsh Assembly Government’s New Ideas Fund to explore the extent to which it might be possible to develop new approaches to tackling the poverty premium,

² Welsh Assembly Government (2006) *Eradicating Child Poverty in Wales: Measuring Success*, Cardiff: WAG

³ This evidence is explored in more detail in the subsequent chapters.

particularly that experienced by households with children. The project focused on three areas where the existence of a 'premium' or hidden costs had already been identified, namely:

- education
- financial services
- fuel.

The Foundation was pleased to work in partnership with Save the Children, Consumer Focus Wales and National Energy Action Cymru to investigate the issues further and to present the findings.

Methodology

The project was conducted as follows:

Statistical Analysis

An analysis of statistics on expenditure by low income households was undertaken by the New Policy Institute. Unfortunately it proved impossible to provide an analysis of household expenditure based on data for Wales because the sample size was too small so a UK analysis was used. The findings from this analysis are in Chapter 2.

Round table discussions

One round table discussion on each of the subject areas being considered was held (3 in total). The discussions lasted 2 – 2 1/2 hours, and were facilitated by the relevant partner organisation. There were between 10 and 15 participants in each group, with participants being invited from a range of backgrounds to include Welsh Assembly Government officials, local government officers, business / industry representatives and third sector organisations. A list of participants is attached at Annex 1.

The format of the discussion was:

- introduction to the group
- aims of the discussion
- briefing on the poverty premium in the relevant area (based on a literature review)
- consideration of key questions (attached at Annex 2).

The partner organisations and Bevan Foundation then wrote up the discussions and identified emerging recommendations. These are not fully developed proposals but are ideas for action that were considered to be worthy of further investigation.

Findings

Overall, this report identifies a number of ways in which the Welsh Assembly Government and other bodies can help to ensure that low income households are not penalised in accessing three key services – education, financial service

and fuel. They include a mixture of actions that the Welsh Assembly Government can take itself, and action the Welsh Assembly Government needs to take to influence UK policy and regulation.

Four themes emerge across the chapters. The first is the importance of regulation, auditing and inspection. It is vital that regulation and inspection regimes put action to address poverty at the centre of their work. This will encourage the regulated bodies – be they schools, energy suppliers or financial institutions – to meet the needs of low income households fully. This is a straightforward, cost-neutral step that could, and should, be introduced swiftly.

The second theme is the need for more and better information, to help households to make choices and to exercise their rights. Financial and energy markets are complex, and it can be difficult for consumers to make informed choices and to get matters put right if they go wrong. Similarly, it can be difficult for parents to question charges made by schools. Providing information will help low income households to make informed choices.

The third theme concerns reducing barriers that face low income households. Across each area, there were instances where high initial costs, risk of hidden charges or stigma prevented low income households from participating in schemes that could potentially benefit them – whether this was switching energy supplier, paying by direct debit or taking up Free School Meals. There is a great deal that the public sector in Wales can do to reduce or eradicate these barriers, which is set out in more detail in each chapter.

Last, but by no means least, is the issue of grants and other support to low income families. Sometimes, payments such as School Uniform Grant or Winter Fuel Allowance simply subsidise the high prices charged by the supplier without tackling the root cause of the problem. Two discussion groups suggested that a more effective approach might be to eradicate the high charges themselves, whether this be by introducing a low cost, standard school uniform or by helping lower and cheaper energy use.

The Bevan Foundation would like to record its appreciation of the support provided by the Welsh Assembly Government's New Ideas Fund and also gratefully acknowledges the generous contributions of time and expertise of its partners Save the Children Cymru, Consumer Focus Wales and National Energy Action Cymru. We would also like to thank all those who participated in the round table discussions for contributing their ideas and expertise without which we would not have been able to prepare this report.

However, grateful though we are for their input, the responsibility for this report and for any errors in it rests with the Bevan Foundation alone.

2. LOW INCOME AND HOUSEHOLD SPENDING IN WALES

Tom MacInnes, New Policy Institute

2.1 The overall picture of low income in Wales

This section presents some statistics relating to poverty in Wales. It looks at the overall extent of poverty and how it varies across groups, using data for 2004/5 to 2006/7 from the Households Below Average Income data set. More recent data (2005/6 to 2007/8) has been published since this analysis was undertaken.

A person is deemed to be in low income (or “income poverty”, “poverty” for short) if the total after-tax income of the household is below 60% of the national contemporary median. The amount needed to stay out of poverty is dependent on the size of the household. In 2006/07, a couple with no children required an income of £193 per week and a lone parent with two young children would need an income of £189 to stay out of poverty. For a couple with two children, the figure would be £270⁴. Table 1, below, sets out the number of people in poverty in Wales by age group.

Table 1 – Overall poverty figures for Wales by age

	Total population	Number in poverty	Poverty risk	Poverty share
Population	2,910,000	640,000	22%	
Children	630,000	180,000	29%	28%
Working age adults	1,690,000	350,000	20%	55%
Pensioners	590,000	110,000	19%	17%

Source: HBAI

The “poverty risk” in the table above is the proportion of each group that live in low income households. This risk is much higher for children, at 29%, than for either working age adults or pensioners. In total, 180,000 children in Wales live in low income households according to this data.

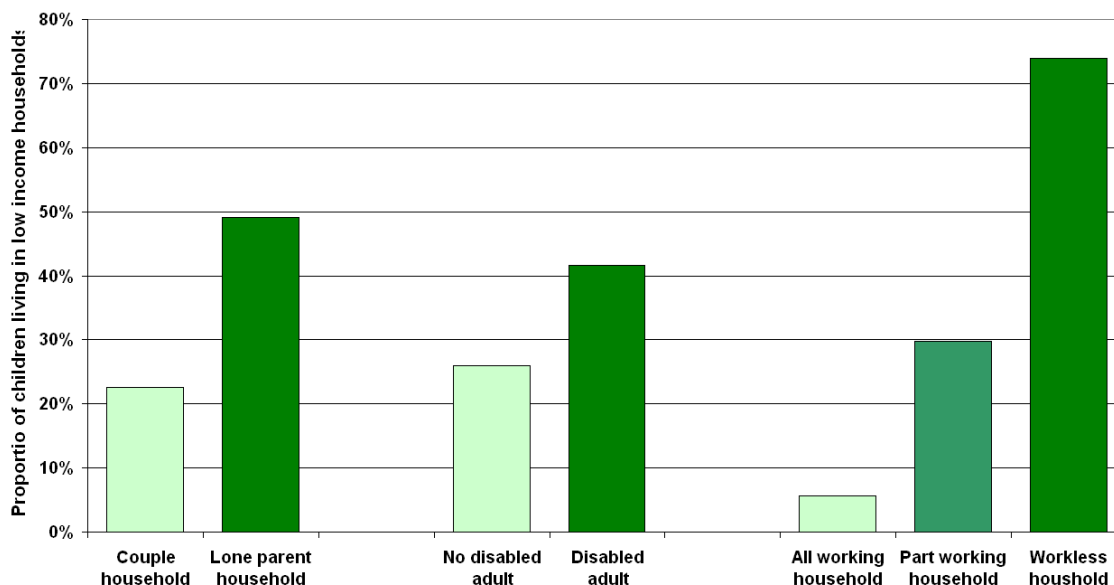
The “poverty share” in the table is the proportion of those in low income households who belong to each group. Despite their relatively lower risk of poverty, working age adults make up more than half of the population of people in poverty. Children make up just over a quarter, and pensioners just under a fifth.

The next graph looks specifically at children in poverty, and examines the difference in risk by three important factors. The first is household type – lone parent or couple households. The second variable is whether or not there is a disabled adult in the household. The third variable is the work status of the family unit. We use a three-way classification for the work status – all working if

⁴ All these figures are after taxes and housing costs have been paid.

all the adults in the household work and at least one adult works full time, part working if the adults work but not full time, and workless if no adult carries out paid work. All figures shown are after housing costs have been deducted.

Graph 2 – The proportion of children in poverty in Wales by key risk factors



Source: Households Below Average Income, DWP, 2004/05 to 2006/07

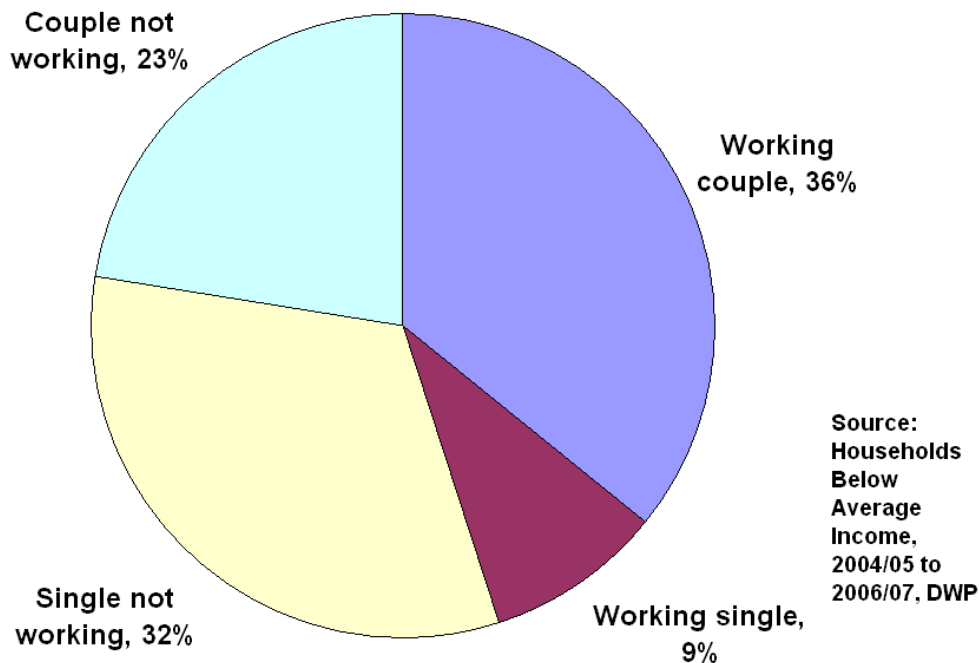
Half of children in lone parent households are in poverty, around twice as high a proportion as for couple households.

Around two fifths of children who live in a household with a disabled adult live in poverty, compared to around a quarter who live in a household with no disabled adult. These figures do not take into account the additional costs of living with a disability. For instance, they include Disabled Living Allowance in the income of the household, even though it is tailored specifically to meet the additional needs of the disabled person.

Around three quarters of children in workless households are in poverty, compared to around 30% for children who live in a household where an adult does some paid work. However, it is only in all working households where the risk of poverty is really lowered – around 5% of children in such households are in poverty.

There is an overlap between work status and household type. The next graph looks at all children in poverty, splitting them up by the work status and household type.

Graph 3 – Children in Wales living in poverty by work status and household type



Of all children in poverty, just under half live in a household where an adult works. Most of these live in couple households.

Of children in poverty in workless households, most are in lone parent households. Around one third of all children in poverty are in workless lone parent households and around one quarter of all children in poverty are in workless couple households.

2.2 How spending varies across income groups

Having looked at low income, and the types of groups most likely to live in low income households, the next section looks at how expenditure varies by income groups.

The source for this data is the Expenditure and Food Survey. As it is a much smaller survey than the Households Below Average Income Survey used above, it is not possible to use it to look specifically at Wales.

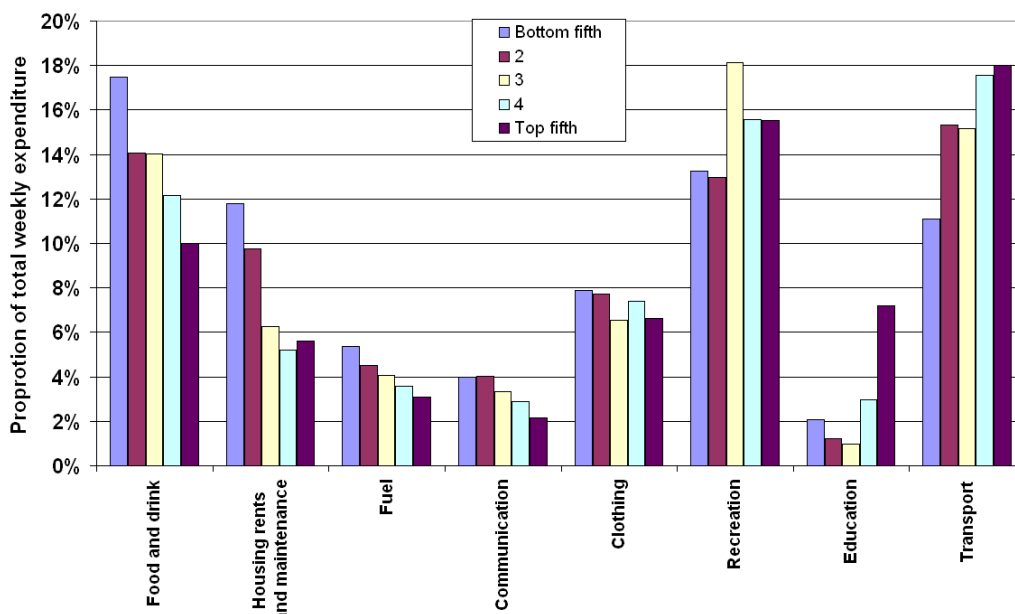
The analysis that follows is for the whole UK, but can certainly be read across to Wales, as expenditure is quite similar. For instance, food makes up around 12% of average weekly expenditure in England, Scotland and Wales. Transport costs make up around 16-17% of weekly expenditure in all four countries of the UK.

The analysis in this section breaks the population up into five equal groups based on their income. The incomes are equivalised to take household size into account. Given that we say in Table 1.1 that 22% of the population of Wales were in poverty, we could assume that this corresponds to the bottom fifth in the

analysis that follows. The average weekly expenditure of this group is around £190.

We look at the proportion of weekly expenditure that is accounted for by various different items.

Graph 4 – Weekly expenditure on different items by income quintile



Source: Expenditure and Food Survey, 2006

Around 17% of weekly expenditure for a household in the bottom fifth goes on food and (non alcoholic) drink, much higher than other income groups. Households in the top fifth only use around 9% of their weekly expenditure on food.

Fuel also takes up a higher proportion of expenditure of lower income households than households with higher incomes. Fuel takes up around 6% of the weekly expenditure of the bottom fifth of households, compared to around 4% of households with average incomes.

Recreation accounts for around 14% of the weekly expenditure of both the bottom and second bottom fifths. Whilst a lower proportion of overall spend than households on average incomes, it is still a substantial proportion of weekly expenditure – more than communication and clothing combined.

Housing takes up around 14% of weekly expenditure for households in the bottom fifth. It is difficult to compare this with other quintiles as whilst rent is included, mortgage repayments are not included, and these can make up a large chunk of housing expenditure for average income households⁵.

⁵ Mortgage interest repayments are bundled together with council tax in an “Other expenditure” category not shown here. Inevitably, “Other expenditure” makes up a larger proportion of weekly expenditure for higher income households than lower income households.

However, what we can say is that food, fuel and housing account for over a third of weekly expenditure for households in the bottom fifth of incomes. One type of expenditure that takes up a lower proportion of the weekly spend for low income households than households on average and higher incomes is transport. It accounts for 11% of expenditure among households in the bottom fifth, compared to 19% in the top fifth and 15% for households on average incomes. As car ownership rates are lower amongst low income households, it is likely that this is a key factor.

This analysis looks at all family types, but a closer examination of households with children gives very similar results. Food, fuel and housing together account for over one third of the expenditure of households with children in the bottom fifth, and this is a higher proportion than the average household.

In conclusion, we can say with some confidence that about one in five of the population in Wales lives in poverty, with just under one in three of children doing so. If these households follow the same patterns of expenditure as in the UK as a whole, we can also say that a larger proportion of low income household budgets go on food, fuel and housing than in better off households.

3. REDUCING THE POVERTY PREMIUM IN EDUCATION

Anne Crowley and Sian Thomas, Save the Children Cymru

3.1 Introduction

This chapter presents information on the current position on the costs of education; the impact on children living in low income households in Wales; the key themes on solutions generated at a round table discussion and concludes with a number of recommendations aimed at the Welsh Assembly Government and its partners. The report draws on an excellent briefing paper prepared by End Child Poverty Cymru on the costs of education⁶ which begins:

Every child in Wales has a right to free education. However, a child's education can come at a high cost for parents and carers. School has the potential to provide all children with the opportunity to learn, make friends and participate in a range of events and activities, regardless of family background, income and other defining factors. School can also act as a barrier in protecting children from the impact of living in poverty. Yet as parents are increasingly called upon to pay a considerable amount of money for school uniforms, trips, activities, transitional events, meals and classroom materials, school also has the potential to isolate, exclude and stigmatise children, especially those in low-income families. Every child in Wales may indeed have a right to free education, but these 'hidden' additional costs of schooling are exposing an increasing number of children and families to financial hardship.

3.2 Background

Although levels of child poverty have reduced over recent years, one in four children (180,000 children) in Wales continues to live in poverty⁷. One key aspect of this 'poverty premium' is within the education system. The 'hidden' additional cost of education and schooling affects poor children and families by using a proportionately higher percentage of their incomes to supplement their attendance at school. Examples of these costs which disproportionately affect low income families are:

- purchase of school uniforms and sports kits
- costs of classroom materials for activities such as cookery, IT and music lessons
- costs of curriculum related activities and school trips
- costs of activities such as charity events and school photos.

⁶ End Child Poverty Cymru (2006) *The Cost of Education*. Available at:

<http://www.childreninwales.org.uk/areasofwork/childpoverty/endchildpovertynetwork/index.html>

⁷ Data from Welsh Assembly Government (2009) Children and Young People's Well-being Monitor for Wales.

In general, no charge can be made for admitting pupils to maintained schools and it is not possible for schools to make a compulsory charge for activities during school hours. When requests are made for financial contributions from parents or carers, there is Welsh Assembly Government guidance that the governing body or teaching staff must make it clear that there is no obligation to make a contribution. There is much anecdotal evidence from parents that this is not the case.

3.3 Costs of Education

The Cost of Schooling report⁸ commissioned by the Department for Children, Schools and Families (DCSF) found that the average annual cost associated with sending a child to a state school was £563.15 for primary pupils and £948.11 for secondary pupils. Costs include the school uniforms, classroom materials, school trips and activities. The largest cost was school meals at an annual average of £316.20. Almost 40% of parents and carers surveyed found it difficult to meet these costs.

3.3.1 School Uniforms and Sports Equipment

According to the DCSF study, the average cost of a school uniform (including PE kit) is around £286 per year, rising to £312 for boys.⁹ Many parents complained that not only are school uniforms expensive but that schools do not allow them a choice of where to buy their child's clothes. With many schools demanding a uniform or sports kit to be a certain design or style, complete with a school logo, parents are compelled to purchase items from school-nominated outlets or designated retailer, where costs can be significantly higher. This, along with the quality of school clothing, was the subject of an inquiry by the Office of Fair Trading in 2006. It found that 84% of schools that require pupils to have a uniform impose restrictions on the choice of supplier for at least one item of the uniform. Items purchased from designated retailers or schools were found to be 23% more expensive than in uniform retailers generally and a staggering 150% more expensive than supermarkets. The OFT study estimated that the total yearly detriment is £32m for parents with children in secondary education and £13m for those with children in primary schools.¹⁰

Since 2005 the Welsh Assembly Government has paid a grant of £100 for pupils from low income households (those eligible for free school meals because of low income) as they enter secondary school. The grant is administered by local authorities who have the power to provide additional discretionary school uniform grants. In January 2009, only 13 of the 22 local authorities in Wales provided these additional grants, and these varied depending on where pupils live, from £10 - £155 a year for secondary school pupils only.¹¹

⁸ Department for Children, Schools and Families (2007) *Cost of Schooling* available at: <http://publications.dcsf.gov.uk/eOrderingDownload/DCSF-RR060.pdf>

⁹ The costs for secondary school uniform was higher than primary school uniform (£211.60 compared to £163.72).

¹⁰ Office of Fair Trading (2006) *School Uniforms Review*. London OFT

¹¹ Minister for Children, Education, Lifelong Learning and Skills response to a Written Assembly Question tabled on 28 January 2009 in the Senedd

Given that recent figures indicate that there are 29% of children in Wales living in poverty and only 16% of school children entitled to free school meals, a significant number of families are therefore not accessing this much needed grant.

3.3.2 Curricular Expenses and After-School Activities

Increasingly, many parents of secondary school pupils are being asked to purchase equipment and materials to assist with their child's learning, from a sketchbook for art, aprons for cooking, textbooks for examinations and books for reading. A more recent concern, according to End Child Poverty Cymru is the cost of transitional events, where pupils transferring from primary to secondary school are invited to an event organised by the school where a meal and overnight accommodation may be provided at a substantial cost to their parents¹². Schools are also being encouraged to further develop after-school activities, some of which incur a fee. Without any consideration of a family's ability to pay, some of these after-school activities have become exclusive and excluding, denying large numbers of pupils opportunities to learn new skills and interests.

Pupils increasingly need access to the internet to do homework and latest figures indicate that 67% of homes in Wales have access to such facilities, however just 50% of homes in the lowest socio-economic group have access compared with nearly 90% in the higher groups. About 60% in the South Wales Valleys have access, compared with 76% in Cardiff and south east Wales.¹³ Although pupils can be excused from such work, this marks individuals out as 'different'. Schools are keen to encourage the use of school computer facilities at the end of the school day or alternatively, for pupils to access public libraries. However, there are clear cost implications for pupils who remain in school in relation to accessing public transport or to travel to their local library.

3.3.3 School Trips

Though schools can only legally ask families for voluntary contributions to cover the costs of 'optional extras' such as school trips, many parents feel pressurised into paying for such activities, knowing that if they do not find the money, their child may be excluded from participating. With an average cost of school residential trips at around £186, these costs can be especially prohibitive¹⁴. Children may also suffer academically if they are prevented from going on school trips linked to the curriculum and will also miss out on valuable time with their peers outside of the classroom. Such costs are well beyond the means of many low-income families. Access to funds which facilitate the involvement of pupils in school trips for children from low-income households was one of the many recommendations put forward in the Welsh Assembly Government's Child Poverty Task Group report in 2004¹⁵.

¹² End Child Poverty Cymru (2006) *The Cost of Education*

¹³ Consumer Focus Wales (2009) Forthcoming report. Cardiff: CFW

¹⁴ Department for Education & Skills (2004) *The Cost of Schooling*, London: DfES

¹⁵ Welsh Assembly Government (2004) *Report of the Child Poverty Task Group*

3.3.4 School Meals

In Wales, local education authority maintained schools must provide a free midday meal to pupils if their parents are in receipt of income-based jobseekers allowance or income support, or if they are receiving support as asylum seekers. The school must also provide a free meal if a pupil's parent receives Child Tax Credit and their income is below a certain level or if they get the guarantee part of Pension Credit.

A significant minority of pupils who could have free school meals do not claim them – almost 1 in 4 of those eligible in primary schools (23%) with even less amongst secondary school pupils (28%). Research indicates that stigma and fear of bullying are defining factors for parents and pupils not taking up their entitlements¹⁶.

Several key child poverty organisations have collectively campaigned for universal free school meals to eradicate stigma and bullying, improve take-up whilst also reducing financial pressure on families¹⁷. Recent news reports have also highlighted the link between children having a healthy meal and improved behaviour in the classroom. It is also worth recalling that during the post war years, the Government covered the full cost of school meals and that some local authorities in other parts of the UK are now experimenting with providing free school meals for all, suggesting that costs can be covered, take-up significantly increased and stigma removed¹⁸.

3.4 Impact on children

In Wales there is a strong link between child poverty and low educational attainment. Data for 2008 shows that 61.9% of children aged 15 who were not eligible for free school meals achieved 5 or more GCSEs at grade A-C compared with 28.0% of children who were eligible for free meals.¹⁹ The findings at other Key Stages show a similar pattern. End Child Poverty Network Cymru suggests that the reasons for this include pupils from low income families having a comparative lack of access to resources, the impact of stigma and bullying and also their disengagement from secondary schooling. Other studies evidence that children experiencing poverty from a very young age show a clear awareness of the difficulties of how poverty impacts on their education and worry about the cost of school uniforms and school trips²⁰.

In consultations undertaken by Save the Children, many children and young people across Wales identify education as playing a key role in helping them get out of poverty and to fulfil their hopes and potential. In the consultations on the

¹⁶ End Child Poverty Cymru (2006) *The Cost of Education*

¹⁷ Child Poverty Action Group (2006) *Recipe for change: a good practice guide for school meals*. London: CPAG

¹⁸ End Child Poverty Cymru (2006) *The Cost of Education*

¹⁹ Welsh Assembly Government (2009) *Academic Achievement and Entitlement to Free School Meals 2008*, Statistical Bulletin 15/09.

²⁰ Horgan, G. (2007) *The impact of Poverty on young Children's experience of school*. York: Joseph Rowntree Foundation

Welsh Assembly Government's Child Poverty Task Group report, children and young people regarded both primary and secondary schools to be expensive and elitist. Even though education is free, children and young people said there were lots of 'extras' that are expected. Children and young people gave powerful illustrations of how poverty can mean that they miss out on school trips and activities which, along with clothing and free school meals, identifies them as poor and attracts bullying and teasing. The cumulative effect of all these 'differences' has a major impact on how poor children get on in school.²¹

3.5 Discussion

Round table participants included policy makers; teachers and their representatives; service providers; non-governmental organisations and parents. They all recognised the problems facing low-income families in meeting the costs associated with education and schooling. There was concern that in addition to the above-mentioned costs, poorer children were also missing out on additional, out of school, teaching support which many more affluent families are now purchasing for their children. It was stated that research consistently shows that the most relevant factor influencing attainment levels in school is the quality of education; if parents don't get good quality education for their child in school then those who can afford to will purchase it from outside.

There was some concern that a focus on some aspects of the costs of education, e.g. school meals and school trips, should not be at the expense of the question of poor children's achievement at school. What really mattered was ensuring that income did not determine a child's success at school and in later life. The key issue was, therefore, to ensure that measures to alleviate the symptoms of poverty were as simple and streamlined as possible, whilst maintaining a focus on raising the achievement of low income children.

The discussion recognised that the Welsh Assembly Government had done a great deal through various initiatives such as free school breakfasts, school uniform grant, educational maintenance allowance and other steps. However, it was crucial that existing Welsh Assembly Government guidance was implemented in schools. Much of the guidance would help to reduce the 'poverty premium' but it simply was not being applied at local level, resulting in a mismatch between the Assembly Government's intentions and reality on the ground.

The discussion also highlighted the lack of coherence of Welsh Assembly Government policy initiatives and funding programmes. For example the RAISE programme, School Effectiveness Programme, Community-Focused Schools and the Welsh Assembly Government's work all focused on tackling child poverty. Participants most closely involved in running schools or education services said that work to access and utilise a range of different funding streams could detract from the delivery of quality education. It was the latter that was paramount.

²¹ Welsh Assembly Government (2005) *Child Poverty Task Group report*,

Participants observed there is no 'silver bullet'; the poverty premium in education needs to be addressed within the overall context of efforts to tackle child poverty. The difficulties of trying to increase funding to schools with high levels of pupils eligible for free school meals without (a) reducing opportunities for other children in the current economic climate or (b) stigmatising provision were debated.

Ideas for action put forward included:

- Introduce more coherence into Welsh Assembly Government policies and directives that impact on the costs of education – setting action to address the disadvantages that children living in poverty experience because of the costs associated with education within the Welsh Assembly Government's overall strategy to reduce child poverty.
- Improve the scrutiny of the implementation of existing Welsh Assembly Government guidance, in particular guidance on discretionary school uniform grants and voluntary contributions for school trips.
- Encourage schools and the Welsh Assembly Government to think creatively about ways of meeting the objectives of school trips, school uniforms etc. in more affordable ways. This might include an all-Wales school uniform with all-Wales procurement of clothing; all-Wales or regional procurement of extra-curricular activities and extras such as photos; and alternatives to school trips as ways of broadening children's experiences.
- Schools should also minimise the costs to pupils of participating in the curriculum, e.g. the costs of text books for English GCSE, and of materials, e.g. for cookery / DT classes. They should take steps to ensure that children from low income households are not penalised.
- Raise the levels of awareness amongst head teachers, classroom teachers and school governors of the effects of income poverty and strategies (that can be adopted at a school and classroom level) to overcome the disadvantages and stigma pupils from low income families face. It was felt to be particularly important to ensure head teachers understood the importance of addressing child poverty, as they were responsible for key decisions e.g. on participation in Free School Breakfasts.
- This should be coupled with initiatives to increase the standard of and 'social capital' deployed by school governing bodies, e.g. a single body for a group of schools. Training in social inclusion, as undertaken in North Wales, was cited as an example of good practice.
- Increase and make consistent student entitlement to free school meals, school uniform grants, etc. so that a. the threshold for eligibility is consistent between schemes b. the assessment for entitlement is simple

and applies to all schemes.

- Serious consideration should be given to the provision of universal free school meals, particularly in primary schools, including learning the lessons from Scotland.²² However there were some concerns that the cost of introducing this policy in Wales could be very high, diverting funding from elsewhere in the education budget.
- Schools and local authorities should take practical steps to reduce the stigma associated with targeted support for the poorest, for example introducing cashless cafeterias. There is some evidence²³ that cashless systems are effective. The Welsh Assembly Government should introduce an 'innovation' grant to support schools in implementing such schemes.
- Schools should involve parents and children in developing practical solutions at the local level, making sure that low income families are included as well as better off parents. Schools should also engage with community and voluntary groups such as Communities First.
- Include evaluation of how schools address the problems associated with the costs of education and the impact on students from low income households in the new Estyn Inspection Framework. This could include requiring schools to estimate the typical costs of pupil attendance and participation in school activities, including the costs of certain subjects.

The review of the Welsh Assembly Government Child Poverty Strategy and the proposed Children and Families (Wales) Measure provide opportunity to raise the profile of these issues and to ensure that the relevant public bodies include action to reduce the poverty premium in education when taking forward the likely new duty on them to take action to tackle child poverty. The duty on public bodies within the proposed Measure provides a timely opportunity both for local education authorities and school governing bodies to review the impact of their service provision on child poverty and also for the Welsh Assembly Government to ensure that this duty is delivered in a way which can evidence improved outcomes for children.

²² The findings from a recent School Food Trust study are also important -

http://www.schoolfoodtrust.org.uk/UploadDocs/Library/Documents/sft_fsm_please_sir_jan09.pdf

²³ E.g. Pamela Storey and Rosemary Chamberlain (2001) Improving the Take Up of Free School Meals, Thomas Coram Research Unit Institute of Education. Department for Education and Employment Research Paper 270. Available at: <http://www.dcsf.gov.uk/research/data/uploadfiles/rr270.pdf>. and P. Sahota et. al. (2008) Leeds Free School Meals Research Project - Investigating why many children do not take their free school meal entitlement. Phase 1 Report available at: www.educationleeds.co.uk/documents/download.aspx?fid=38486. Local authorities also report a positive impact e.g. Carmarthenshire (reported at: http://online.carmarthenshire.gov.uk/agendas/eng/ECSS20050310/MINUTES.HTM#P41_1761); St. Helens (<http://212.248.225.145:8080/publications/AnnualScrutinyReport06-07.pdf>);

3.6 Recommendations

The Welsh Assembly Government has made a clear commitment to tackle child poverty, though very little has been done to date to combat the exclusion and financial challenges arising from the costs of school that face many children and families. A coordinated response is needed from government, local authorities, local education authorities, schools and school governors to allow all children to participate in the opportunities that school offers.

1. The Welsh Assembly Government should look to ensure that schools and local authorities support children living in poverty by meeting the costs associated with education as outlined in this chapter in line with the new duty placed upon them in the Children and Families (Wales) Measure.
2. Action to address the disadvantages children from low income households face because of these additional costs of education should be included in the Welsh Assembly Government's new Child Poverty Strategy.
3. Schools' compliance with these requirements and the steps they are taking to tackle child poverty should be monitored by Estyn within their new inspection framework.
4. While meals are still charged-for, schools and local authorities should work with welfare agencies to improve the take-up of free school meals. Schools should be expected to introduce cashless systems via plastic smart cards for school meal purchases as a means of reducing stigma and bullying, and increasing take-up. The Welsh Assembly Government and local education authorities need to investigate the funding implications for the introduction of cashless systems in schools.
5. The Welsh Assembly Government should conduct a study into the feasibility of introducing a universal free school meal service for all school pupils across Wales, noting the contribution that leading child poverty organisations and the Free School Meals Act in Scotland have made.
6. The Welsh Assembly Government should investigate the feasibility of
 - a. reducing the costs of school uniform including exploring the possibility of an all-Wales school uniform;
 - b. all-Wales or regional procurement for schools' extra-curricular requirements.
7. Training on the effects of income poverty on children in school and good practice in alleviating the problems should be included in Initial Teacher Training and the Continuous Professional Development of head teachers, teachers and school based staff (see Tackling Child Poverty in Wales: A good practice guide for schools produced by the End Child Poverty Network Cymru).

8. School governors should also receive training on child poverty and consideration should be given to combining schools' governing bodies to pool skills and 'social capital'.
9. Schools and local authorities should review their policies on charging and seek to minimize costs for parents. This policy should be informed by consultations with parents and pupils to seek their views.

4. POVERTY PREMIUM AND FINANCIAL SERVICES

Lindsey Kearton, Consumer Focus Wales

4.1 Background

Consumers with limited or no interaction with financial services, such as people without bank accounts, those who prefer to manage their budgets in cash or those with poor credit histories, often end up paying more for goods and services than those who pay by direct debit or who have access to mainstream credit facilities. For example:

- without the ability to spread the cost of payments certain products or services, such as furniture, large electrical goods and insurance, become unaffordable;
- people who are denied access to mainstream credit have a limited range of options available to them. Often they are forced to use alternative high cost lenders such as home credit companies, 'sub prime' credit shops, or even illegal lenders;
- limited access to 'free-to-use' ATMs or reliance on cheque-cashing facilities can mean people often have to pay disproportionately more to access their cash.

Consumer Focus Wales recently commissioned a small research study²⁴ to gain a better understanding of the experiences and attitudes of low income households to financial services. Key findings were:

- Paying by cash was an *active choice* for the majority in the study. Primary reasons for zero or restricted use of bank accounts centred on the need to maintain control over their finances, the fear of debt (often compounded by negative experiences of unauthorised overdraft charges), and mistrust or suspicion of banks, in particular how they administer direct debits. In addition, for some there were concerns around the security of accounts and identity theft;
- People are generally aware of the penalties for using cash to pay certain bills, as opposed to direct debits, but the perceived advantages for using cash are felt to far outweigh the extra cost;
- Pressures to provide for their children and try to give them what they want were evident;
- Most had an aversion to going into debt, largely linked to previous bad experiences and the worry of not being able to keep up with repayments, however cash-flow problems, living on low income, and unexpected expenses/circumstances meant the majority said they have no option but to borrow occasionally;
- Many had personal experience of using home credit companies and credit shops (e.g. Provident and Brighthouse). No one was at all

²⁴ Consumer Focus Wales commissioned Beaufort Research Ltd to undertake four focus groups at locations across Wales. All those who took part in the study had dependent children in the household, were living on a low income and tended to manage on cash budgets. The research took place in March 2009. Due to the qualitative nature of the research the results should be treated as indicative rather than definitive.

surprised at the rates of interest charged by these lenders. All had a view that they were particularly expensive, although many found it hard to assess the extent of the difference between these and more mainstream forms of credit.

- Although companies such as these were severely criticised, most believed people in their situation had little choice but to use this form of credit.
- Very few people were aware of Credit Unions (although it should be noted that members of CUs were screened out at the recruitment stage) but those who had heard of them (mostly through word of mouth) had generally positive impressions of them (although knowledge of how they worked was somewhat limited);
- Following an explanation, many respondents expressed an evident interest in the loan service offered by CUs.
- The Post Office was also a popular alternative to a bank as it was felt you had more control with a PO account. The Post Office also appeared to have greater trust and satisfaction with the service offered by Post Offices.

4.2 Key Issues

It was widely accepted that the Welsh Assembly Government doesn't have all the drivers for reducing the poverty premium associated with financial services in Wales, however there are many policy areas where improvements could be made to help reduce the barriers experienced by many low income families and ultimately help to facilitate positive behavioural change – including social justice/financial inclusion work; education; and local government.

4.2.1 Aversion to bank accounts/using direct debits

There has been a concerted effort by the UK Government over recent years to reduce the number of 'unbanked' individuals, largely driven by the direct payment of benefits into bank accounts or their more limited equivalents, e.g. the Post Office Card Account (POCA). During the focus group discussions Barclays Bank stated that up to 11,000 people are opening Basic Bank Accounts with them every week.

However, the fact remains that even if they do have an account a large proportion of consumers, particularly those on a low or limited income, do not use their bank account to its full potential and continue to make the majority of their financial transactions in cash.

We heard how the primary reasons for zero or restricted use of bank accounts centred on people's need to maintain control over their finances, the fear of debt, and a general mistrust or suspicion of banks. Complying with banks' requirements is also an issue for a small number of people.

Clearly if people are to be encouraged to use bank accounts to their greater advantage these are some of the issues that need to be addressed.

Maintaining control over finances – this is key for people on low or limited incomes. The need for better education/information on financial products and services was cited throughout the discussions. When people initially open a bank account ensuring they receive clear information on the benefits of using the account is critical (including how direct debits work and the Direct Debit guarantee). While this is quite often provided in leaflet form, some people need more face-to-face support. Obviously the facilities on offer will vary depending on the type of account opened.

A number of participants felt some of the control issues could be addressed by extending facilities such as text alerts to basic bank account holders. A number of high street banks now offer this service on their standard current accounts, for example providing regular information on balances and recent transactions. Many people on low incomes have mobile phones - the latest Ofcom report²⁵ shows across the UK 77% of people from socio-economic group DE use mobile phone services. While a separate breakdown for Wales isn't available, 82% of the Welsh population overall have a mobile. Therefore, so long as the cost of receiving the service is reasonable, this could be a way of alleviating some of the concerns people have about using bank accounts. Information could include alerts for when direct debits leave an account or highlighting low funds. Llandudno and District Credit Union already provide this service to some of their current account customers.

Building trust - some consumers may be more willing to use bank accounts if they are provided by alternative organisations, such as Credit Unions (CUs) or post offices. Both are regularly cited by consumers as trusted sources of information.

Llandudno and District Credit Union is the first in Wales to offer the Credit Union Current Account (CUCA). Only around 20 CUs throughout the UK currently provide this service which is delivered through a partnership arrangement with the Co-operative Bank. Llandudno are also in the process of setting up arrangements to extend this service to members of 4 other CUs in North Wales. Each CU taking part in the scheme will be able to set their own charges for the service (most commonly a monthly tariff of £2). It was noted that this is a very expensive service to operate but once more people sign up hopefully the costs to CU providers will go down.

Community Housing Cymru (CHC) is also in the process of setting up a Community Development Finance Institution (CDFI) in Wales (currently fundraising/building partnerships). Efforts are initially being concentrated in South Wales - working with housing associations covering Bridgend, Rhondda Cynon Taf, Newport, Torfaen and Cardiff.

While providing more affordable loans to tenants will be a key aim of the project, the business model they have adopted will involve linking in with a range of other financial and advice services. Once up and running it is hoped this will include basic bank account facilities.

²⁵ 'The Consumer Experience 2008 research report', Ofcom (November 2008)

Verifying ID – many people on low incomes often do not have some of the standard forms of ID that are needed to open a bank account, such as a passport or driving licence, or may not have a long-term home address. An example was given of how one housing association (Bron Afon Community Housing) has tried to tackle this problem. Since the start of the year they offer all new tenants a standard introduction letter to take to the bank of their choice when opening a basic bank account. The aim is to ensure tenants are equipped with acceptable personal identification and don't get fobbed off or fall at the first hurdle when the staff member turns them down without providing a written explanation.

It was also highlighted that many vulnerable young people with no permanent address (such as the homeless and care leavers) often experience problems opening bank accounts. As a result many still receive their benefit payments via a giro cheque and are turning to high street cheque cashers to access their cash, meaning a significant proportion of their benefit payment is taken as a charge for the service (which can be as much as 20-30%). Many thought this situation needed to be stopped as it made young people vulnerable, and that any Government-issued cheque should be exempt from cashing charges. The DWP are due to stop all giro cheque payments in 2010. While this will prevent the above problem occurring some believe it will create additional problems for people still receiving benefits this way.

4.2.2 Access to cash

It was acknowledged that work is on-going to increase the number of 'free-to-use' ATMs in some of the most deprived areas of Wales – 198 new machines are planned in total. Identifying suitable sites for ATMs was also highlighted as an issue. Barriers to increased provision have included planning difficulties and community safety issues. It was emphasised that as benefits are increasingly paid via bank accounts, it is vital that people are able to access their cash easily and affordably. One option might be for banks to pay community venues, shops etc. a fee to host a free-to-use ATM.

4.2.3 Access to affordable credit

Manageable borrowing provides a huge benefit to many consumers but financially excluded households who need credit have a limited range of options available to them. Financially excluded households have little alternative but to use alternative high cost lenders such as home credit companies, 'sub prime' credit shops or even illegal lenders.

Pressure on low income households may well be increasing. Applications to the Social Fund (across the UK) rose from 1.4 million in 2007 to 2.1 million in 2008. It turned down 596,000 applications last year, up from 316,000 in 2007.

Concern was expressed about high cost lenders - companies such as Brighthouse; Provident; and Cattles were frequently cited. The issue of payday loans was also raised as young people and low income families are increasingly

being targeted by these loan providers. It was felt this is turning into a big problem. Some people are ending up with a loan bigger than their pay in quite a short period of time, leading them into an on-going cycle of debt that they have little chance of ever repaying.

As door step lenders exit the market tighten up their lending criteria there is an increased likelihood of people accessing illegal lenders,²⁶ which is an area of particular concern.²⁷

It was acknowledged that we need to recognise why many of these services are so attractive to low income consumers. In addition to a perceived lack of alternatives, for home credit this includes affordable weekly home collection, payment flexibility (if people pay six out of ten repayments on time they are regarded as good payers) and long-standing, trusted relationships with collection agents. While 'sub-prime' credit shops also offer relatively low weekly repayments and no credit checks. For many third sector providers competing on this basis is near impossible and at best unsustainable. A recent report commissioned by the Joseph Rowntree Foundation²⁸ found a not-for-profit home credit business would need to charge APRs of at least 100% to compete on the same basis as home credit companies (such a business model would also need an initial £90 million subsidy to enable it to offer such rates).

While research shows most people are aware that they're paying more for these types of credit, few may realise the scale of the additional interest charges in comparison to other forms of credit. It was felt more needed to be done to alert people to the extra costs involved, and in general clearer information needed to be provided to consumers at the point of sale. It was also felt that lenders should have a 'duty of care' towards borrowers, so that adequate and understandable information was provided and credit was reasonable and affordable.

Since the roundtable the UK Government has launched the Consumer White Paper '*A Better Deal for Consumers*' (July 2009) which aims to address some of these issues. This includes new requirements on lenders (from 2010) under the Consumer Credit Directive, such as the need to explain products adequately to consumers before they enter into a contract and checking consumers' credit worthiness before lending. At the same time the Office of Fair Trading (OFT) announced they will be undertaking a review into the high cost credit sector over the summer (due to initially report at the end of 2009). They have also issued for consultation guidance for creditors on irresponsible lending. The impact these developments will potentially have on low income consumers will need careful monitoring over the coming months.

Third sector lenders, such as CUs and CDFIs, have the potential to play a key role in extending affordable credit to low income consumers, particularly when

²⁶ <http://www.nlgn.org.uk/public/press-releases/recession-could-cause-increase-in-loan-sharks-says-new-report/>

²⁷ The Wales Illegal Money Lending Unit is addressing this issue – see <http://www.tradingstandardswales.org.uk/index.asp?itemid=61>

²⁸ 'Is a not-for-profit home credit business feasible?', Joseph Rowntree Foundation (March 2009)

banks have acknowledged that they are never likely to provide mainstream finance in small amounts to this group.

Credit Unions form an integral part of the Welsh Assembly Government's financial inclusion policy, including a commitment to establish a credit union in every secondary school. The Assembly Government is also currently undertaking specific research to assess the current 'health' of the CU movement in Wales (which is due to report in the Autumn).

In the areas where it operates the CDFI should also provide greater choice to financially excluded consumers in Wales. While CUs are limited in the amount of interest they can charge on their loans (a maximum APR of 26.8%), a CDFI has greater flexibility in setting interest rates which allows them to offer loans to slightly higher risk customers. Typical APRs are likely to be between 25 to 40%, although this may need to increase if they have too many bad payers. While they have experienced a degree of negativity about the project, particularly in relation to the levels of interest they will be charging, they are currently building partnerships with other organisations in the pilot areas, including credit unions.

4.2.4 Other financial services

The issue of increasing the take-up of home contents insurance amongst low income families was also raised. It was recognised that this needs to be looked at in terms of affordability, the nature of the insurance product, the perceived value of having cover and how the premium is paid. Some questioned the value of insurance for some tenants especially when people have bought products such as TVs from high cost credit shops such as Brighthouse, where the cost of the TV to the consumer is far higher than the value of the product.

Some social landlords negotiate insurance products for their tenants. For example, Community Housing Cymru promote an Insurance with-Rent (IwR) scheme and Bron Afon Community Housing also have a separate scheme via Aviva, which includes the option for weekly payments and lower premiums for pensioners. Take-up for the latter scheme is at 16% - above average for this type of product. The insurance needs of private tenants were also highlighted, particularly to ensure that landlords fulfilled their responsibilities for repairs in the event of damage.

4.2.5 Need for education

There was an overall consensus of the need for better advice and information on financial services.

The importance of face-to-face support for financially excluded consumers was highlighted – where practicable this should be offered at key points of a transaction. For example, when opening a bank account or signing a credit agreement - potentially this could be provided during the 'cooling off period' as this is unlikely to be possible at the point of signing.

The internet is being increasingly used as a resource for information/advice provision. While appropriate for some, it was widely agreed that web-based sources are not always suitable for financially excluded consumers. Not only are they less likely to personally use the internet, other barriers that might make using the internet difficult include literacy/numeracy problems; learning difficulties, or a lack of provision for those whose first language isn't English. Equally critical was the need for those providing that support to have access to the right information. Many of the participants agreed a standard information pack on financial products and services would be extremely useful for advice providers and others working with vulnerable groups.

The Financial Services Authority (FSA) are currently working with a range of organisations across Wales to deliver financial capability training and resources, as part of the Wales Financial Inclusion strategy. This includes a website and phone line, which are already available, and face to face guidance from 2010.

4.2.5 Role of public services providers

The Financial Inclusion Champions team have been working with local authorities and housing associations across Wales and have found varying attitudes to embedding financial inclusion into their work. More often than not this work needs to be linked to some form of business case (i.e. How can the authority benefit from the work? Does it provide value for money?).²⁹

As the recession kicks in it is likely that budgets for public services will be squeezed even further which may make it increasingly difficult to persuade local authorities to commit to improving financial inclusion in their area - although it was noted that Excellence Wales has financial inclusion in their remit this year. Other participants acknowledged that it can take time for such issues to be officially recognised. For example child poverty has only recently started to be identified as an issue on which public sector bodies must demonstrate that they are taking action.

It was also noted that many local authorities are failing to consider financial inclusion issues when introducing new payment systems for their own services. Examples given included leisure facilities which could only be paid for using direct debit and the introduction of a 'cashless' payment system on Swansea buses.

In addition concern was expressed that charges for particular local authority services have increased disproportionately to rises in pension and other benefit payments. A linked example was provided where some local authority tenants are paying for their water along with their rent. There have been cases where decreases in water charges were not passed on, effectively meaning tenants paying for their water this way were paying a premium.

The Child Poverty Solutions – Wales Project (led by Save the Children in partnership with the WLGA and the Welsh Assembly Government) was

²⁹ see <http://www.transact.org.uk/page.asp?section=0001000100040020>

identified as an example of good practice. The project consists of a web-based resource and two local authority pilot projects. The web-based component has been designed to help local public service providers / practitioners develop local approaches to tackling child poverty in Wales. The toolkit includes a range of resources such as: a step-by-step policy process including advice and information on how to 'make the case' (i.e. convincing key people of the need for local action), examples of good practice, how to gather evidence to support the work, and advice on implementation, monitoring and evaluation.

There was a suggestion that lessons could be learnt from this approach. This may involve incorporating financial inclusion into the existing structure, or setting-up a similar toolkit specifically for financial inclusion.

4.2.6 Role of auditors and regulators

There was a view that the way public services are audited and regulated could be improved so they are more outcome focussed i.e. assessing the impact policies have had on improving the lives of citizens not purely internal processes/value for money. This could include registered social landlords reporting on the proportion of tenants with whom they were negotiating, or had agreed, sustainable repayment of arrears, not just the number of arrears.

It was also suggested that regulation of private landlords would, amongst other things, help to promote financial inclusion as it would, hopefully, prohibit various bad practices that impacted on low income families. This included over-charging for electricity, charging tenants for items that were the landlord's responsibility e.g. repairs and written tenancy agreements.

4.3 Income maximisation

Income maximisation is a critical element of the financial inclusion agenda. The value of benefits not being claimed by a range of consumer groups is considerable and boosting income in this way can have a significant impact on household finances. It may even help to prevent people from having to borrow to meet basic needs or do without essential goods and services.

The Welsh Assembly Government fund a number of income maximisation programmes, including the Better Advice: Better Health Programme, local authority based initiatives to increase the take-up of Housing/Council Tax Benefit and a campaign to increase benefit take-up amongst families with disabled children. It is also a key element of the Home Energy Efficiency Scheme (HEES).

It was highlighted that the UK Government's Take Up Taskforce has recently asked all local authorities and their partners from across the UK for examples of good practice which demonstrate how local services have supported families at risk of poverty to take up the financial support they are entitled to. The Welsh Assembly Government will be looking at the report to see what lessons can be learnt from work being taken forward in other areas.

There was also some discussion around local authority/housing association debt collection processes, particularly to ensure that debt repayment arrangements were realistic. At present, different RSLs appear to have different processes for debt collection and it was felt that consistent good practice was needed e.g. through issuing guidance on fair debt collection (possibly based on OFT guidance on Debt Collection).

4.4 Emerging recommendations

1. Public service providers need to ensure that financial inclusion issues are considered in the design stage of service development – i.e. mainstreamed not just an afterthought.
2. The Child Poverty Solutions Wales Project should be extended to include financial inclusion or set-up a similar toolkit specifically focussed on financial inclusion.
3. Auditing bodies (e.g. Wales Audit Office) should improve and extend auditing processes to make them more externally focussed i.e. based on outcomes for citizens.
4. The Welsh Assembly Government should develop guidance on fair debt collection processes for all public service providers, building on work undertaken by the Office of Fair Trading for all debt collection.³⁰
5. The Welsh Assembly Government should offer greater support for third sector providers (as trusted organisations) to enable them to offer a ‘package of financial services’ for their customers (including bank accounts, advice and savings)
6. Financial service providers should use technological developments (e.g. text alerts) to improve people’s awareness of banking services and help them to retain that element of control over their finances.
7. The Welsh Assembly Government in partnership with Consumer Focus and others should develop a standard information pack on financial services that can be used by all of those working to support vulnerable people (e.g. building on the work of the Financial Services Authority including their Money Guidance and MoneyMadeClear resources).
8. Financial service providers should offer more face-to-face, practical support for financially excluded consumers – building on existing community-based financial capability programmes.
9. The Welsh Assembly Government should explore the potential of tighter regulation of private landlords.
10. The Welsh Assembly Government should explore ways to incentivise community venues/local shops to accommodate free-to-use ATMs.

³⁰ http://www.of.gov.uk/shared_of/business_leaflets/consumer_credit/oft664.pdf

5. FUEL POVERTY AND THE POVERTY PREMIUM

Nuria Zolle, National Energy Action Cymru

5.1 Background

Expenditure on fuel accounts for a higher proportion of expenditure by low income households than higher income households, with the least well-off households on average spending about 6% of their income on heating and lighting.³¹

A household which would need to spend more than 10% of their income in order to heat their home to an acceptable level (21 degrees Celsius in the living room and 18 degrees Celsius elsewhere) is defined as 'fuel poor'. Estimates in the late 1990s suggested that around one third of households in Wales were in fuel poverty, with rates then falling to around 17% in 2004.³² However subsequent increases in fuel prices mean it is likely that fuel poverty has increased considerably since then: EnergyWatch Wales estimates that 22% of all households (totalling 270,000) are in fuel poverty in 2008.³³

The Welsh Assembly Government is committed to eradicating fuel poverty amongst vulnerable households by 2010, amongst people living in social housing by 2012 and amongst all households by 2018. It published its draft National Energy Efficiency and Savings Plan in March 2009, and the final version is awaited. A draft fuel poverty strategy is to be published shortly.

The Bevan Foundation and National Energy Action Cymru organised a round table discussion on measures that could be adopted in Wales in order to reduce the prevalence and impact of fuel poverty.

The key factors which influence fuel poverty are low household incomes (whether from wages or benefits), energy prices and energy inefficient homes and practices. The question of pay, taxation and benefits, along with the regulation of energy companies and prices, are not devolved to the Welsh Assembly Government. However this is not to say that the Government cannot promote the needs of fuel poor households in Wales nor take action where incomes and energy prices impact on households. However it is fair to say that most Welsh Assembly Government action has focused on energy efficiency in homes occupied by fuel poor households.

5.2 Energy costs

Energy costs form a high proportion of Welsh household expenditure and place a significant burden on low income households at risk of fuel poverty. Energy

³¹ Expenditure and Food Survey – see Graph 4 in this report.

³² Welsh Assembly Government (2007) Fuel Poverty in Wales, 2004 – fuel poverty analysis.

³³ Cited by Minister for Environment, Sustainability and Housing in Paper to the National Assembly for Wales Sustainability Committee, 4th June 2008. Available at: <http://www.assemblywales.org/bus-home/bus-committees/bus-committees-third1/bus-committees-third-sc-home/bus-committees-third-sc-agendas.htm?act=dis&id=86348&ds=6/2008>

prices have risen more sharply than average household income in the UK. The average gas and electricity bill for Cardiff, for example, was £978 per annum in 2008, up nearly 20% on 2006 average prices.³⁴ Prices have risen further subsequently.

On average it is estimated that across the UK average electricity debt stands around £230 and gas debt around £193 per household. The Citizens Advice Bureau has reported that since 2008-09 they have seen an increase of 39% in the number of households requesting fuel debt advice in Wales.

Electricity prices are also a particular concern in Wales. Consumers in Wales pay more for their electricity (South Wales = 10%; North Wales = 4%)³⁵ than the GB average for electricity. This inequity impacts hardest on those least able to afford it, because it tends to be the poorest who rely on electricity to heat their homes: according to 2006 figures 40% of households who heat their homes solely with electricity are living in fuel poverty in Wales.

The Government and the energy suppliers have agreed on a level of expenditure on social offerings which will total some £375 million to 2010-2011, but only a portion of this expenditure will be devoted to providing social tariffs. In July 2008, the regulator formally defined criteria for a social tariff in the following terms: 'it must be as good as the lowest tariff they offer to customers in that area, including online deals.' The Westminster Government has undertaken to legislate for a mandatory social tariff when the voluntary agreement ends in 2011.

However, cost impacts on households in more complex ways than simply the total annual price paid. There are other factors which exacerbate the problems experienced by Welsh households trying to keep warm in winter including:

- Payment methods and tariffs
- Access to the mains gas and type of housing
- Understanding competition and the energy market

Any one of these factors will limit the choices poor households have, which in turn will affect their ability to keep warm in winter.

5.2.1 Payment methods and types of payments

Welsh households are more likely than their English counterparts to use prepayment meters. There are 216,000 electricity customers (16%) on electricity meters and 122,000 customers (14%) on prepayment gas meters in Wales. In September 2008, 50,547 households were in debt to their electricity suppliers (of which 20,669 were on prepayment meters) and 46,588 households were in debt to their gas suppliers (of which 27,139 were on prepayment meters).

³⁴ BERR data on Average Annual Domestic Electricity and Gas Bills for selected towns and cities.

³⁵ 'Welsh household electricity prices: a paper for energywatch Wales', Cornwall Energy (April 2008)

Prepayment users can pay as much as £325 more for the same level of energy consumption than those paying by online direct debit. Prepayment is also generally more expensive than standard credit. Furthermore, customers who have old-fashioned token pre-payment meters can find themselves plunged into debt if their supplier is delayed in manually recalibrating their meter every time there is a price rise. National Energy Action (NEA) estimates that approximately 1000 meters are installed each day to recover overdue payments from consumers, as an alternative to disconnection.

Ofgem's Energy Supply Probe identified a number of areas where the energy market is failing vulnerable and disadvantaged consumers. The Regulator's analysis of unfairness in energy supplier practices highlighted that prepayment meter users were not getting a fair deal and that suppliers should ensure that charges are cost reflective and not exploitative. In September the government announced it would consider legislation to reduce unjustified tariffs if suppliers did not address this issue voluntarily.

In discussion, one energy supplier highlighted that they did not charge a premium for prepayment meters. They aimed to ensure their customers are aware of different payment methods and tariffs, and try to be proactive to prevent customers slipping into debt. However they found that customers often preferred prepayment meters because they felt it helped household budgeting. They found there was a stigma around asking for help and a lack of trust of suppliers. This particular supplier aimed to overcome this problem through trained staff and by working with third parties who were trusted more.

Other participants in the discussion questioned whether prepayment meters were an active choice for many households which used them, as they were rarely aware of other options for payment. This was particularly the case where households were not in debt and yet still used prepayment methods. There was confusion amongst participants about the implications of Ofgem's probe into prepayment meters.

Several participants raised the issue of self-disconnection, as well as disconnection by suppliers. It was suggested that energy companies' practices were not always responsible, e.g. disconnecting a household even though it included a child under 6 years old, and that individuals did not always know what recourse they had if they were threatened with disconnection.

In terms of action that could be taken to tackle payment issues, although it was acknowledged that price regulation was not a devolved issue, there was nevertheless action that the Welsh Assembly Government could take.

First, the Welsh Assembly Government needed to argue for tighter regulation of energy prices and practices, given higher fuel prices in Wales and the greater dependence on prepayment methods. The Welsh Assembly Government should argue for social tariffs to be mandatory for energy suppliers (see above). Where a supplier does offer a social tariff or does not charge a premium for prepayment, public bodies should be able to 'endorse' these suppliers in some way.

Second, there are ways to address the question of payment. This included the following ideas:

- Enabling customers with Post Office accounts (POCAS) to use Post Offices to pay for gas and electricity when collecting benefits.
- Using the Post Office Diversification Fund to increase the number of free to use ATMs available, which would help households to access cash to purchase prepayment tokens.
- Putting standing order payments on the same footing as direct debits, so that customers could obtain discounts whilst using a more trusted payment method.
- Accepting weekly rather than monthly fixed payments, which help households on weekly incomes to budget whilst offering a discount on payment.
- Putting Wales at the forefront of smart meter trials by replacing prepayment meters with smart meters.

Third, there was a discussion about the role of additional payments to households, such as the Winter Fuel Payment. It was suggested that it should be offered to a wider range of households e.g. those including children or sick or disabled people, and could be linked to action to tackle child poverty. It was also suggested that use of the winter fuel payment could be restricted to expenditure on fuel or energy efficiency measures. If it was paid as a voucher, rather than in cash, it could have a higher value with a 'good deal' supplier or if spent on insulation etc. Trust funds established by some energy companies for customers in financial hardship could also play a role.³⁶

Fourth, it was suggested that the Welsh public sector as a whole could play a greater role in procurement and in providing information. The public sector could use its purchasing power to procure better deals, in particular for social housing tenants. There is also potential for the Welsh Assembly Government to provide more information to customers about payment options and customer rights, and to promote Fuel Direct.

5.3 Access to the mains gas and type of housing

Wales has a particular problem with rural fuel poverty, as well as in inner city areas and the south Wales valleys. Welsh Assembly Government figures for 2004 highlighted that Mid Wales and North Wales have the highest incidences of fuel poor households,³⁷ whilst more recent reports highlight the prevalence in inner cities and valleys areas too.³⁸

NEA Cymru estimate that one in 5 households in Wales does not have access to mains gas, many of these in rural areas. Many of these households live in older "hard-to-treat" houses, with solid walls that are difficult to insulate

³⁶ see <http://www.charisgrants.com/>

³⁷ Welsh Assembly Government (2007) Fuel Poverty in Wales, 2004 – fuel poverty analysis.

³⁸ David Gordon and Eldin Fahmy (2008) A small area fuel poverty indicator for Wales, University of Bristol. Available at: <http://wales.gov.uk/docs/desh/policy/090129fuelpovertyreporten.pdf>

economically. According to Ofgem, rural consumers without access to mains gas pay 10-15% more for their electricity - approximately £55. This is because they can't benefit from the dual fuel deals offered to consumers who pay a combined bill for gas and electricity.

NEA Cymru estimates that the average energy bill (including electricity) for residents who use oil to heat their home is around £1500. This is around £200 more than the average bill – a difference which can have a big impact on the quality of life of a very low-income family. There are also problems with the way people have to pay for oil. The average household with an oil-based heating system needs 2,000 litres a year to keep their home warm. The minimum quantity you can buy is 500 litres. For households on low incomes it can be hard to find such a large sum to pay up front.

In discussion, microgeneration was highlighted as a key tool to enable households off mains gas to generate their own energy supply and potentially get a return by selling surplus energy to the grid. However, although microgeneration was agreed to be valuable, a number of issues were also identified that might limit its usefulness to low income households. In particular, set up costs were high for households that were unlikely to have savings and loan terms offered by suppliers may well not be available to households with poor credit scores or who may not even have a bank account. Moreover, the return on household investment is not guaranteed. In addition, the question of repair and maintenance, risk of hidden costs and potential difficulties with a technology that was still largely in its infancy were likely to deter households who could not afford to take any risk. Difficulties had been caused in the switch from coal to low pressure gas and it was important not to replicate these. There could also be difficulties with any benefits received by a household if they were deemed to have an income from microgenerating energy. Community-based microgeneration, where the risks were not borne by individual households, may therefore be a better option. Indeed, it was suggested that individual microgeneration could *increase* the divide between the fuel rich and fuel poor unless its introduction was carefully managed.

Other ways of assisting households off the gas network were to help with the costs of bulk-buying oil, e.g. through co-operatives.

Last, the question of maintenance and repair of heating systems was identified as a key issue. Many households do not have boiler insurance and are faced with severe difficulty in the event of a breakdown – it was said that the Home Energy Efficiency Scheme had to deal with many such cases. It was suggested that a maintenance contract be developed for HEES grant recipients, perhaps based on the approach in Scotland.

5.4 Competition and the energy market

Ofgem's energy market probe, published on the 6th October, shows the benefits of a competitive market are not reaching vulnerable consumers (older people; low income groups; prepayment meter customers; and rural customers) and these consumers are most likely to be fuel poor.

Ofgem's³⁹ research into switching has shown Welsh vulnerable consumers are generally less likely to switch supplier. In part, this is a rational response to risk. Poor households do not have the capacity to manage the financial consequences of double payments, for example because of problems with direct debit. Remaining with their incumbent provider seems to them to be the safest and most rational option. Further, it is clear that the energy market is too complex for the majority of the population to be able to make the most economically advantageous choice. Between one fifth and one third of consumers actually switch to a tariff that is more expensive⁴⁰. They have not done this because they want to lose money, but because the market and information is so complicated. Although the net cost of such consumer detriment is just £14 to £35 a year, these small amounts can make a significant difference to the budgets of the poorest households.

Engaging in this extremely complex market requires high skills; in Wales there is a significant problem with basic literacy, numeracy and financial skills. These will need to be addressed as part of any effort to ensure Welsh households can take advantage of the competitive market.

In discussion, it was highlighted that the switching market was highly imperfect. A great deal of switching is generated by door-step sales or cold calling, with around half of people who switch actually being worse off than they were.⁴¹ There was a great deal more that should be done to regulate switching (or more specifically the sales activity associated with it) e.g. requiring a written quotation which would set out 'how much will I save?' and 'how much will it cost'?

However the problem of financial literacy would remain and advice agencies need to be equipped to advise customers, including social landlords for example. Various financial literacy programmes might help to improve awareness and understanding.

Finally, it was pointed out that switching could not help all households. Households in debt were unable to switch, whilst those which were very risk-averse may also not want to switch.

In conclusion it was agreed that the Welsh Assembly Government needed a clear strategy and strong voice with Ofgem.

5.5 Emerging Recommendations

The following were identified as warranting further consideration and development:

³⁹ Ofgem (2008) Consumer First – Key Findings. Consumer research carried out as part of the review and Ofgem's Consumer First

⁴⁰ Social obligations and economic regulation, Professor Catherine Waddams, Centre for Competition Policy, 2004.

⁴¹ Consumer Focus (2009) Submission to Ofgem Energy Supply Probe – proposed retail market remedies consultation Available at:

<http://www.ofgem.gov.uk/MARKETS/RETMKTS/ENSUPPRO/Documents1/Response%20from%20Consumer%20Focus%20Response%20to%20Energy%20Supply%20Probe%20%E2%80%93%20Initial%20Findings%20Report.pdf>

1. Provision of more information to households about energy pricing and switching.
 2. Greater regulation of energy pricing (especially the social tariff) and sales activity by energy suppliers.
 3. Development of new payment methods, including methods that build on the Post Office network and Post Office account.
 4. Development of Winter Fuel Payments so that they address child poverty and tackle the underlying problems of fuel poverty.
 5. Careful management of micro-generation initiatives to ensure they can be taken up by low income households.
 6. A stronger voice for the Welsh Assembly Government in dealing with UK Government and other agencies.
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Annex 1 Participants in round table discussions

Education – 17th March 2009

Chair: Anne Crowley, Save the Children

Suzanne Barnes,	Project officer, ContinYou
Jane Lenny,	Parent, Cardiff Parents' Network
Selvina Borge	Parent, Cardiff Parents' Network
Siriol Burford	Head of Inclusion, Plasmawr school, Cardiff
Jonathon Edwards	Assembly Liaison Officer. Citizens Advice Bureau
Professor David Egan	Cardiff School of Education, UWIC
Karen Grunhut	Secretary to the Child Poverty Expert Group
Duncan Holtom,	Senior Researcher, People and Work Unit
Paul Morgan	Welsh Assembly Government
Denise Inger,	Director, SNAP Cymru
Rachel Kelly	Action for Children
Carol Lewis	Co-ordinator, Traveller Education Service in Cardiff
Chris Morgan,	Head teacher Glenboi Primary School
Sean O'Neill	Policy Director, Children in Wales
Daisy Seabourne	Policy Officer, Lifelong Learning, WLGA
Sian Thomas	Parenting Network (Caerphilly & Cardiff)
Ceri Weatherall	Estyn

Financial Services – 16th July 2009

Chair: Vivienne Sugar, Chair, Consumer Focus Wales

Kathy Brown	Barclays Bank
Steve Clark	Welsh Tenants Federation
Dr Sam Clutton	Barnardos Cymru
Simon Dawson	Bron Afon Homes
Katija Dew	Financial Inclusion Champion for Wales, Wales Co-operative Centre
Lindsay Kearton	Consumer Focus Wales
Julie Lipscomb	WHOTS Lead Officer, Cardiff Trading Standards
Mark Robinson	Wales Centre for Credit Counselling
Lynne Schofield	Head of Financial Inclusion Unit, Welsh Assembly Government
Jane Shepherd	Welsh Local Government Association
Dave Williams	Llandudno & District Credit Union

Fuel Poverty – 13th July 2009

Chair: Sean O’Neil, Children in Wales

Nuria Zolle	NEA Cymru
Helen Roach	NEA Cymru
Jonathan Edwards	Citizen’s Advice Bureau
Clare Williams	Community Housing Cymru
Gwyn Lewis	Head of Energy Efficiency and Fuel Poverty, Welsh Assembly Government
Liz Withers	Consumer Focus Wales
Jan Hudson	Scottish and Southern Energy
Roy Roberts	Chair, Fuel Poverty Advisory Group
Sean O’Neill	Children in Wales
Lee Phillips	Financial Service Authority
Tracey Williams	Welsh Assembly Government
Michael Halloran	Wales and West Housing Association
Katija Dew	Financial Inclusion Champion
JJ Costello	Shelter
Huw Roberts	Royal Mail

Annex 2 Discussion Questions

1. Education

Policy and research

- What specific policies can the Welsh Assembly Government implement to address the 'poverty premium' in education?
- What potential does the School Effectiveness Programme offer to address the 'poverty premium' in education?
- Is more research needed to explore the link between the disengagement of pupils from low income families due to the 'hidden' costs of education and subsequent link between child poverty and low educational attainment?

Roles of Governors and Teachers

- What role can governing bodies play in reducing the costs of education? How could this role be developed?
- What are the implications of the 'poverty premium' in education on the responsibilities of teachers and other staff within schools?

Practical solutions

- What practical ideas could be taken forward e.g. feasibility of an 'education cash credit' for Free School Meal children (modelled on the Education Maintenance Allowance, but payable in school via a smart card), to be used for school trips, extended school activities, books?
- How can school initiatives such as parental engagement strategies, extended schools activities and vocational opportunities be 'poverty proofed'?

2. Financial Services

Policy

- To what extent will the Financial Inclusion Strategy for Wales help to address the 'poverty premium' associated with financial services?
- What more should the Welsh Assembly Government do to address this issue?

Role of the Private Sector

- What role does the retail/telecoms sector have in reducing the cost differentials associated with different payment methods, particularly for essential goods and services? What role do regulators play?
- Should the mainstream financial services industry be more actively encouraged to provide financial products and services more appropriate to the needs and circumstances of low income households (particularly those with a large Government stake), or should greater efforts be spent on supporting alternative financial services providers such as Credit Unions, CDFIs and the Post Office?

Practical solutions

- What practical ideas could be taken forward by the Welsh Assembly Government and others to help reduce the poverty premium in Wales?
- Do people have any specific examples of successful local initiatives that could be replicated in other areas of Wales?

3. Fuel Poverty

Payment methods and financial services

- What can the Welsh Assembly Government do to help address the poverty premium?
- How can we ensure disadvantaged consumers will be protected and assisted through access to cheaper payment methods?

Access to the mains gas and housing type

- Can microgeneration help address the poverty premium?
- How can we address poor housing conditions, low income, expensive payment methods and exclusion from benefits of the competitive energy market in rural areas?

Competition and the energy market

- What type of programmes will enable vulnerable groups to better engage in the competitive market, and what role should the Welsh Assembly Government play?