

**Ending fuel poverty:
a Factor Four approach**

**A market feasibility study
Final report**

**Sharon Collard
The Personal Finance Research Centre,
University of Bristol**

December 2001

Contents

	Page
Executive summary	i
Introduction	1
Chapter 1 Current methods of bill payment	3
How many households pay their fuel bills in cash?	3
Who pays their household bills in cash?	4
How often do households that pay for gas and electricity in cash make payments?	8
Where do households pay for gas and/or electricity?	9
Current account-holding cash-payers	10
Why do households pay their bills in cash?	11
Combining cash and banking facilities to pay for gas and electricity	14
Chapter 2 Switching payment methods	15
Satisfaction with current payment methods	15
Overall views of cash payment methods	18
Willingness to switch payment methods	17
The Factor Four approach: paying for fuel through a community finance initiative	19
	23
Chapter 3 A Factor Four approach to tackling fuel poverty	30
Energy efficiency advice	30
Money advice	32
Information and advice about the competitive energy market	33
What types of households would be most likely to use advice services?	33
How much interest is there in an integrated Factor Four service?	35
What types of households would be most likely to use a Factor Four service?	36
In conclusion	39
References	40
Appendix 1	
Appendix 2	

Executive summary

The Personal Finance Research Centre was commissioned to undertake empirical research to test the feasibility of a ‘Factor Four’ approach to tackling fuel poverty, which combines a new bill-payment service with money and budgeting advice; energy efficiency advice; and advice and information about getting the best from the competitive energy market. This report presents the findings of this research, which have informed the business plan for a pilot service being developed by the New Economics Foundation and National Energy Action.

How many households pay their fuel bills in cash?

The Omnibus survey indicates that 67 per cent of British households use banking facilities for all of their bills, 17 per cent use a mixture of cash and bank facilities and 15 per cent pay all their bills in cash.

In relation to gas and electricity bills, around a third (32 per cent) of households interviewed paid at least one fuel bill either in cash or using a pre-payment meter; slightly fewer (29 per cent) paid all their fuels bills this way. Allowing for households without a gas supply, the proportions of gas and electricity customers paying in cash did not really differ.

Saving up to pay a bill was the most common cash payment method, used by 11 per cent of households to pay for gas and 14 per cent to pay for electricity. A prepayment meter was the next most common method (7 per cent for gas and 12 per cent for electricity). A relatively small proportion of households paid for their gas or electricity through a budget scheme (5 per cent for electricity and 6 per cent for gas).

Who pays their household bills in cash?

The close correlation between low income and cash payment of household bills has already been well-established. This was corroborated by the Omnibus survey - households who paid for gas *and* electricity in cash¹ (‘fuel cash-payers’) tended to be drawn predominantly from lower income households. Consequently:

- Fuel cash-payers were disproportionately non-pensioner households with no-one in paid employment;
- Households headed by a single adult made up nearly half (48 per cent) of all those who paid their gas or electricity in cash. Lone parent families, in particular, were greatly over-represented compared both with the general population and with households that paid their fuel bills through the bank;
- Over half of fuel cash-payers (51 per cent) were social tenants. This was two and a half times the proportion in the population as a whole and six times greater than among people who paid their fuel bills through the bank;

¹ This includes people with no gas supply who paid their electricity bill in cash

- Compared with those who paid for fuel only using banking facilities, twice as many fuel cash-payers were aged under 30 (14 per cent compared with 8 per cent respectively).

Why do households pay their bills in cash?

Recent research has identified financial control as the overriding reason why households choose to pay their bills in cash (Kempson and Whyley, 2001; MORI, January 2001; University of Warwick and University of East Anglia, March 2001). Some people find cash payment methods convenient, while for others it is a long-standing habit which they are reluctant to give up. A minority may have little choice - having fallen into arrears they are offered either a prepayment meter or payment by budget scheme (Kempson and Whyley, 2001; MORI, January 2001).

The Omnibus survey mirrors this earlier research fairly closely and the findings for gas and electricity were almost identical. Financial control, habit and convenience emerged as the three main reasons. Only small numbers either said that they had no choice or that they paid in cash because they lacked a bank account. In fact, a remarkably high proportion (71 per cent) of households paying for their gas and/or electricity in cash had a current account that they used on a day-to-day basis.

Satisfaction with current payment methods

Recent research on the payment of gas and electricity indicates that, across the range of payment methods, the great majority of consumers are happy with the way they currently pay for their fuel (MORI, January 2001; University of Warwick and University of East Anglia, March 2001).

High levels of satisfaction were also expressed by households in the Omnibus survey, with virtually no difference between gas and electricity. Overall, nine out of ten (92 per cent) households that paid for their gas and/or electricity in cash were happy with their current methods of payment, and most of these were very happy. Fewer than one in ten (6 per cent) held mixed views, and a minority (3 per cent) were dissatisfied.

In addition to being asked how satisfied they were with paying their bills in cash, survey respondents were also asked how strongly they agreed or disagreed with a series of statements relating to paying in cash. There was overwhelming support for the proposition that paying in cash offers more financial control – echoing the reasons why people said that they had opted to pay in this way. Moreover, three quarters of the people interviewed also agreed that paying in cash was more convenient – which was, likewise, a prime consideration in people’s choice of payment method. Interestingly, a clear majority also believed that they ran a risk of disconnection, even though they believed that their chosen payment method gave them financial control.

It was, however, the replies in relation to cost that were particularly interesting. Only a third believed that payments in cash were more costly; yet, in just about all cases, they are more expensive when compared to payments made by direct debit or standing order. Indeed, the cost of gas and electricity seemed to be much less of a consideration than financial control.

Among the focus group participants, only a small number of people did *not* realise that it was more expensive to pay for gas and electricity in cash; most knew that they were paying more for their fuel than direct debit users. Several people felt very strongly that it was unfair that the ‘poor paid more’ because they paid in cash. Most participants, however, accepted the additional cost as a trade-off for being able to use payment methods that suited their needs and circumstances.

Willingness to switch payment methods

Households in the Omnibus survey who paid for gas and/or electricity in cash were asked how willing they would be to change their method of payment if it meant they could access cheaper fuel. They were fairly evenly divided between those who would and those who would not. Just under half (45 per cent) said they would switch – 24 per cent definitely and 21 per cent possibly. However, over half (55 per cent) said they would not switch from their current cash payment method, even if it meant getting cheaper gas or electricity.

The households most likely to change their fuel payment method to access cheaper tariffs comprised:

- People aged under 50;
- One and two parent families with dependent children;
- Households with one earner;
- Mortgage-holders and private tenants.

In addition, attitudes to switching payment methods were highly correlated with households’ use of banking facilities, so that the more financially integrated householders were, the more likely they were to consider switching their bill payment method to obtain cheaper gas and electricity.

Designing a new bill payment service

Drawing together information from the focus groups and the Omnibus survey, it is clear that a new bill payment service will have to incorporate all of the following key features if it is to attract low income consumers:

- Be free at the point of delivery;
- Provide equivalent financial control and transactional transparency to the cash payment methods people currently use;
- Be as, or more, convenient than the ways in which people currently pay for their gas and electricity;
- Enable people to pay more than one bill, and preferably most or all of their bills, through the service;
- Be available locally;
- Open at least five days a week with minimum opening hours of 9am-5pm;
- Be delivered by a trusted and reliable provider.

Even if a Factor Four bill payment service could offer all the same advantages of people’s current payment methods, the question remains – what would persuade people to change

from something they are familiar with to something new? The answer clearly lies in the cost savings that people could benefit from by switching. For low-income consumers to be swayed, however, the new service will have to offer significant cost savings, probably in the region of £4-£5 per week. For many people, it would simply not be worthwhile disrupting their established routines for any less.

The Factor Four approach: paying for fuel through a community finance initiative

Central to the Factor Four approach to tackling fuel poverty is the development of bill payment services provided through community finance initiatives, such as a credit union or community reinvestment trust. This new type of bill payment facility was discussed at six focus groups, three comprising people who were currently using a community finance initiative and three with people who were not.

People in three of the six groups expressed interest in switching to a service of this kind; perhaps not surprisingly, all were current users of community finance initiatives. But their support for a new service was conditional rather than unreserved – there were a number of questions they would want answered before switching from their current methods.

There was no enthusiasm among other participants to change the way they paid for their gas or electricity, even if it was cheaper. The most likely explanation for this division of opinion is that people who are already using a community finance initiative have built up a relationship of trust with the organisation, and are used to conducting financial transactions through it. For them, switching to pay their bills through the same organisation to access cheaper fuel would seem like a fairly rational step.

On the other hand, people with little knowledge or experience of community finance initiatives, like the other focus group participants, will be reluctant to switch to a new service with no track record of performance or delivery, offered by an unfamiliar organisation. For them, having an established bill payment routine that fitted in with their budgeting cycle was far more important than making cost savings.

Target market

The Omnibus survey gives us a clear picture of the types of households that are most likely to change how they pay for gas and/or electricity to access cheaper tariffs. And, from the focus groups, it seems that a bill payment service operated through a community finance initiative would (initially at least) be most effectively targeted at existing users of such initiatives. But how much overlap is there between the households most willing to switch and the types of people who use community finance initiatives?

The longest-established community finance initiatives in Britain are credit unions. From the little research that has been conducted on the profile of their membership, there does seem to be some crossover between credit union members and the households most willing to switch their payment methods, notably middle-aged householders; households with at least one person in paid employment; and lone parents.

While this overlap is encouraging, it is clear that, apart from a proportion of the lone parents, the groups most likely to switch to a bill payment service provided through a credit union will not be the poorest, nor the fuel-poor. Moreover, until fairly recently the development of credit unions has been slow so that, at present, the movement only covers around one per cent of the British population (HM Treasury, 1999). These two issues may, however, be redressed to some extent by promoting bill payment services through community finance initiatives specifically targeted at low-income communities. Even so, encouraging poorer, more risk averse households to try a new bill payment service will present a considerable challenge.

The Factor Four approach: other factors

The other elements of an integrated Factor Four approach to tackling fuel poverty are:

- energy efficiency advice, including information and help to access grants;
- budgeting and money management advice, including advice about tax and benefit entitlements;
- information and advice on getting the best deal in the competitive domestic energy market.

Energy efficiency advice

Of the three factors, energy efficiency advice was by far the most popular among the households surveyed. Over half (53 per cent) of households paying for gas and/or electricity in cash said they would be interested in accessing energy efficiency advice. Slightly more householders said they were fairly likely to use this type of service, compared with those who were very likely to do so (29 per cent compared with 24 per cent respectively).

A rather different picture emerged from the focus groups, where energy advice was the service that fewest people said they needed. In all three areas where the groups were held, people explicitly stated that this type of help and advice was already available, particularly for those not in work. Providers included the local council, registered social landlords, voluntary organisations such as Age Concern, and utility companies. The existence of local provision, along with the fact that many focus group participants would be eligible for advice and help may well explain why only two of the six groups felt that a new energy efficiency advice service would be useful.

Money advice

Far fewer households were keen to use money advice compared with energy efficiency advice, with just under four in ten (36 per cent) households being attracted to the idea. Even among the households that were interested, there was more muted enthusiasm – the majority said that they were only fairly likely to use a money advice service. Participants in four of the six groups felt that a money advice service would be useful, and were interested in both money management (e.g. when setting up home) and debt advice (e.g. help when they got into arrears or had difficulties keeping up payments).

Information and advice about the competitive energy market

Around four in ten (38 per cent) households were keen to access this type of advice, but most were only fairly, rather than very, interested. Switching energy suppliers was raised spontaneously at all of the focus groups. On the whole, people were wary of switching and not at all convinced that any potential savings were worth the hassle. Previous qualitative research has also found that the monthly, quarterly and annual figures used by suppliers have little meaning for people who budget weekly, and that people were concerned about the possibility of having to change their payment method (MORI, March 2001).

Given these views and experiences, it is hardly surprising that there was support in five of the six groups for an independent advice service providing information about the best deal for consumers. Even so, people questioned whether this type of information could ever be independent, as it would have to be provided by companies themselves.

What types of households would be most likely to use advice services?

According to the Omnibus survey, fairly similar types of households said they were willing to use advice services as were keen to switch their payment method. namely:

- People in their 20s and 30s;
- One and two parent families with dependent children;
- One earner households;
- Householders buying their home on a mortgage, and private tenants.

However, unlike the bill-payment switchers, non-pensioner households with no-one in paid employment were also over-represented among those likely to use all three types of advice service. Most likely this is because advice services offer potential cash savings but, unlike switching payment method, they do not carry a risk of losing financial control. By incorporating advice about energy saving, money advice or choosing a supplier the level of interest in a new bill-payment facility among non-pensioner households with no earners could well be enhanced.

How much interest is there in an integrated Factor Four service?

Using a cautious estimate (i.e. only including those households that said they were definitely interested), about a quarter (25 per cent) of households paying in cash were very likely to use a Factor Four service. On average, those very likely to use a Factor Four service would use two of the four services on offer.

Half of them would only be interested in bill-payment but the other half (13 per cent of cash-paying households) were interested in bill-payment plus advice. However, only a very small number (4 per cent) would be very likely to use a full 'Four Factor' service combining a new method of bill payment with all three types of advice.

If we use a less conservative definition (i.e. households that were either very or fairly likely to use the services), nearly twice as many cash-paying households (44 per cent) would be likely to use a Factor Four service. In fact, three quarters of them would use advice services as well as the bill-payment facility and, on average, they would use just under three of the four services on offer. On this less conservative definition nearly one in five (18 per cent) of current cash payers would be fairly likely to use all four services.

There was also a fair degree of interest in using just one of the advice services, without switching to a new bill payment facility. Between 17 and 26 per cent of households using cash to pay for some or all of their fuel were keen to use this service, typically to access energy efficiency advice.

From this, we can give a rough estimate of the likely demand for a Factor Four service among Britain's 24 million households. In total, between 2 and 3.6 million households would be interested in a Factor Four approach. Of these, around one million would be attracted only by a cheaper bill-payment service; while between one million and 2.6 million would be interested in an integrated bill-payment and advice service. The number of households likely to be interested in a full Factor Four service, combining bill-payment and all three types of advice, would range from 250,000 to 1.4 million depending on the definition used.

What types of households would be most likely to use a Factor Four service?

The types of household that were most interested in a Factor Four approach, as measured by their overall likelihood of use plus the average number of factors they would use, were a fairly familiar group. They included households that were:

- Headed by people aged under 40;
- Families with children, and especially lone parents;
- Single earner households;
- Buying their home on a mortgage, and private tenants.

The types of household that were least likely to use the service were:

- Headed by people aged over 70;
- Pensioners living alone;
- Outright owners of their home.

Non-pensioner households with no-one in work and social tenants were interesting for the fact that they had relatively low levels of overall interest in the Factor Four approach, but those who *were* interested tended to say they might use a relatively high number of factors.

There were also some regional differences. Without doubt, the greatest interest in a Factor Four approach existed among households in Scotland. A high proportion of households in the South West of England were interested in the idea, but they tended to say that they would use slightly fewer factors overall. In contrast, interest was quite low in the Midlands and East Anglia and in Wales but the households in these regions who *were* interested said that they might use a relatively high number of factors.

On the whole, households with prepayment meters were interested in the largest number of factors. The people who seemed to have the highest level of interest in the Factor Four approach, however, lived in households where one fuel bill was paid in cash, the other using banking facilities.

There were some interesting links between people's views about paying in cash and their likelihood of using an integrated Factor Four service:

- The highest level of use, not surprisingly, will come from those who are dissatisfied with the way that they currently pay their bills.
- Six in ten of those who did *not* find their current cash payment method convenient will be fairly likely to use a Factor Four service.
- People who were not so concerned about control showed the least interest in a Factor Four service.

Putting this together, the people who are the most likely recruits to a new Factor Four service will be attracted to using a new service as long as it is convenient and provides them with a means of keeping control over their finances. And, as mentioned earlier, existing users of credit unions and other community finance initiatives will be more willing converts to new services provided through these organisations than non-users.

In conclusion

Overall, households paying for their gas and/or electricity in cash were very satisfied with their payment methods. For them, financial control and convenience considerably outweighed the cash savings available to direct debit customers. In addition, they were able to make small, regular cash payments that were much more appropriate for their short-term budgeting cycles than monthly or quarterly instalments.

Designing and developing an integrated bill-payment and advice service that will attract low-income, fuel-poor consumers therefore presents a considerable challenge. Not only will the service have to offer positive advantages over their existing payment methods, it will also have to match the financial control and convenience that they value in their current methods.

Having said that, there was clearly an appetite for a Factor Four approach among the people who took part in the research. The findings from the Omnibus survey indicate that it will be easiest to attract the small number of dissatisfied householders, particularly those who find their current method of paying in cash inconvenient. And the information from the focus groups suggests that new services would best be targeted (initially at least) on existing users of credit unions and other community finance initiatives.

In addition, a Factor Four service will appeal to some groups more than others. Young families with children, and especially lone parents, were attracted to the range of services offered. This was particularly the case among one earner households, although access to a money advice service would also attract those with no earners. In contrast, there was least interest in a Factor Four approach among pensioners, and among single pensioners above all. Alternative services to tackle fuel poverty are clearly required for these people, who constitute the largest proportion of fuel-poor households.

Introduction

It is estimated that between four and seven million households in England alone have to spend more than 10 per cent of their income in order to achieve temperatures needed to maintain health and comfort (DETR 1998). Looking across Britain as a whole, it is clear that poorer households spend a greater than average proportion of their expenditure on fuel and power. These include elderly households, particularly single pensioners mainly dependent on state benefit; lone parent households; social tenants; households with no-one in paid employment; households with the lowest levels of disposable income; and households headed by someone who is unemployed, retired or otherwise economically inactive (Appendix 1).

Action to tackle fuel poverty has been taken on a number of fronts. As well as working to keep fuel prices as competitive as possible, the Office of Gas and Electricity Markets (Ofgem) has also developed a programme of measures which it is undertaking with others to help the fuel poor. The first annual review outlining the progress of this work was published in March 2001 (Ofgem, 2001).

In addition, the government has attempted to tackle the problem of fuel poverty in a variety of ways, such as increasing the value of winter fuel payments to the elderly, introducing a new Home Energy Efficiency Scheme and launching the WarmZones initiative. More recently, the New Economics Foundation and National Energy Action have proposed an integrated approach to addressing fuel poverty, combining the following elements:

- a cost-effective bill payment service delivered through community finance initiatives;
- budgeting and money advice;
- an energy advice service; and
- an independent, non-commercial advice service to help households benefit from the competitive domestic energy market (NEA and NEF, July 2000).

The Personal Finance Research Centre was commissioned to undertake empirical research to test the feasibility of this approach to tackling fuel poverty. This report presents the findings of this research, which have informed the business plan for a pilot service being developed by the New Economics Foundation and National Energy Action.

Methods

The study combined qualitative and quantitative methods to provide both an understanding of the *nature* of need for a new service combining advice services with a bill-payment facility, as well as a measure of the *level* of need.

The study began with six focus groups, two in each of the three proposed pilot areas, which explored in detail how people currently paid their bills; their needs for advice services as well as unmet needs for bill-payment. As well as producing data in their own right, the focus groups fed directly into the design of the quantitative stage of the study, which comprised a large-scale national survey to identify and measure levels of need for a new form of bill-payment service that was linked to a range of advice services. Appendix 2 gives further details of both the focus groups and the survey.

This report

The remainder of this report brings together the findings from the focus groups and the national survey, along with other relevant literature. Focusing predominantly on households that pay for their gas and/or electricity in cash, Chapter 1 examines the current methods used by households to pay their fuel bills, and explores the reasons why they use these payment methods. Chapter 2 goes on to discuss householders' satisfaction with their current cash payment methods and assesses their willingness to change to a new bill-payment service if it enabled them to access cheaper gas and/or electricity. Finally, Chapter 3 outlines the potential demand for advice services and for a combined 'Factor Four' service.

Chapter 1 Current methods of bill payment

Over the past decade, direct debits and standing orders have continued to outstrip cash and cheques to become by far the most common way of paying regular households bills such as electricity, gas, water and telephone. In fact, almost twice as many regular payments were made this way in 2000 than was the case in 1991 (59 per cent compared with 32 per cent respectively). Over the same period, the use of cash and cheques for bill payment has steadily declined (Table 1.1).

Table 1.1 Payment method for all regular payments

	<i>Column percentages</i>									
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 (c)
Cash ^(a)	51	47	46	44	40	39	34	35	33	29
Non-cash	49	53	54	56	60	61	66	65	67	71
of which:										
Cheque	29	29	27	26	24	22	19	17	14	12
SO/DD	65	66	68	69	71	74	74	77	80	83
Other ^(b)	6	5	6	6	6	4	6	5	6	5

^(a) All figures relating to cash are for payments greater than £1

^(b) Includes payment made by postal order, by voucher or using telephone/PC banking

^(c) A change in the methodology has resulted in higher estimates for the use of cash payments which distorts comparisons with earlier years

Source: Yearbook of Payment Statistics 2001, Association for Payment Clearing Services

While the figures above relate to all regular payments that are made in the country, the Omnibus survey allows us to see how households manage their money. The survey data show that 67 per cent of British households use banking facilities for all of their bills, 17 per cent use a mixture of cash and bank facilities and 15 per cent pay all their bills in cash.

How many households pay their fuel bills in cash?

Turning specifically to gas and electricity bills, around a third (32 per cent) of households that were interviewed paid at least one fuel bill either in cash or using a pre-payment meter; slightly fewer (29 per cent) paid all their fuels bills this way. At first glance, cash payment seemed to be more common for electricity than for gas (Table 1.2). However, when we make allowance for the fact that 17 per cent of households did not use a gas supply, the proportions of gas and electricity customers paying in cash did not really differ.

Saving up to pay a bill was the most common cash payment method, used by 11 per cent of households to pay for gas and 14 per cent to pay for electricity (Table 1.2). A prepayment meter was the next most common method (seven per cent for gas and 12 per cent for electricity)². A relatively small proportion of households paid for their gas or electricity through a budget scheme (Table 1.2).

² These figures are broadly consistent with recent research which indicated that around nine per cent of gas and 16 per cent of electricity customers in the UK purchase supplies through a prepayment meter (Electricity Association Fuel Poverty Task Force, 2001).

Table 1.2 Payment methods for gas and electricity*Column percentages*

	Gas	Electricity
Bank, of which:	59	68
<i>Direct debit/standing order</i>	41	46
<i>Cheque</i>	15	18
<i>Debit or credit card</i>	3	4
Cash, of which:	24	32
<i>Saves up cash</i>	11	14
<i>Prepayment meter</i>	7	12
<i>Budget scheme</i>	6	5
Doesn't pay	17	1
<i>Weighted base</i>	3,274	3,274

Base: all households

Among households that had both gas and electricity supplies, a high proportion paid for them in the same way. For example:

- Almost all those (98 per cent) who used banking facilities to pay for electricity also paid for gas in the same way.
- Eight in ten households (82 per cent) who saved up cash to pay for electricity also did so for gas.
- Of those paying for electricity using a budget scheme, 78 per cent were also on a gas budget scheme.
- Over half (57 per cent) of households with an electricity prepayment meter had one for gas as well. A further 28 per cent of electricity prepayment users paid for gas by another cash method, divided evenly between saving up to pay the bill and paying through a budget scheme (14 per cent each).

For many households, the most likely explanation for this overlap is convenience – it is simply easier to pay for both fuel bills in the same way. However, some households paying by prepayment meter and budget scheme would have had no choice but to use these payment methods to repay arrears. And, as previous research has shown, households in arrears with gas payments had frequently fallen behind with their electricity payments too (Rowlingson and Kempson, 1993).

Who pays their household bills in cash?

The close correlation between low income and cash payment of household bills has already been well-established. While this survey shows that around a third (32 per cent) of British householders pay some or all of their household bills in cash, a recent survey of social security recipients paid by order book or girocheque found that around two thirds (68 per cent) of them paid at least one household bill in cash, and about four in ten (41 per cent) paid all their bills this way (Kempson and Whyley, 2001). And paying for gas and electricity in cash is no exception, highlighted in particular by the continued predominance of prepayment meter usage among lower income groups (MORI, January 2001).

Table 1.3 Method of bill-payment by household characteristics*Column percentages*

	All households	How pays for gas/electricity				Pays all household bills in cash
		Cash only	Cash and bank	Bank only	Don't know/ don't pay	
Age of respondent						
Under 30	10	14	20	7	37	17
30s	20	20	15	20	23	17
40s	18	16	23	19	7	14
50s	19	15	15	21	12	14
60s	14	14	15	14	9	14
70 or over	20	21	12	19	12	25
Household type						
Single, non-pensioner	14	17	12	13	14	20
Single, pensioner	13	16	6	11	14	18
Couple, no dependent children	35	24	36	40	21	21
Lone parent	7	14	8	4	11	18
Couple, with dependent children	23	19	25	24	16	12
Other	8	9	14	7	23	10
No. of earners in household						
None (pensioner household)	25	27	18	25	10	31
None (non-pensioner household)	12	24	11	6	20	33
One	29	29	28	29	39	26
Two or more	34	20	44	40	32	11
Tenure						
Owns home outright	31	18	29	37	14	18
Owns home with mortgage	40	21	40	49	12	10
LA/HA tenant	21	51	21	8	23	63
Private tenant	8	10	10	7	51	10
Region						
The North	27	30	22	26	21	32
Midlands and East Anglia	25	25	30	25	11	23
London	10	9	9	10	39	11
South East	15	9	16	18	9	9
South West	9	7	4	10	5	6
Wales	5	7	7	4	5	7
Scotland	9	14	11	7	11	13
Weighted base	3,274	939	119	2,173	43	499

Base: all households

These findings were corroborated by the Omnibus survey - households who paid for gas *and* electricity in cash³ ('fuel cash-payers') tended to be drawn predominantly from lower income households⁴.

Fuel cash-payers were quite disproportionately non-pensioner households with no-one in paid employment (Table 1.3). So, while this group comprised a quarter (24 per cent) of fuel cash-payers, they made up one in eight of the population (12 per cent) and only one in sixteen (6 per cent) of bank-users. Conversely, and as might be expected, the fuel cash-payers included a low proportion of two-earner households

Households headed by a single adult made up nearly half (48 per cent) of all those who paid their gas or electricity in cash (Table 1.3). This compared with a third (34 per cent) of the general population and less than three in ten (28 per cent) of households using banking facilities for their fuel bills. Lone parent families, in particular, were greatly over-represented while two-parent families were slightly under-represented compared both with the general population and with households that paid their fuel bills through the bank. As might be expected, childless couples, who tend to be among the better off, were also under-represented. Single person households were also more numerous than their proportions in the general population or among those using banking facilities and this applied equally to both pensioners and non-pensioners.

There was also a strong correlation between paying for fuel in cash and housing tenure, with over half of fuel cash-payers (51 per cent) being social tenants (Table 1.3). This was two and a half times the proportion in the population as a whole and six times greater than among people who paid their fuel bills through the bank. Mortgagors and outright owners, on the other hand, were considerably under-represented.

Interestingly, fuel cash-payers were spread across the age spectrum and broadly reflected the age structure of the population as a whole (Table 1.3). However, compared with those who paid for fuel only using banking facilities, twice as many fuel cash-payers were aged under 30 (14 per cent compared with 8 per cent respectively). Perhaps surprisingly, roughly the same proportion of fuel cash-payers and bank-users were elderly (21 per cent and 19 per cent respectively).

Finally, there were some regional differences in the ways that households paid for their gas and electricity (Table 1.3). Households in Scotland and the North of England were more numerous among the cash-payers, while those in the South East of England were under-represented.

As we might expect, the link between low income and cash bill payment was more pronounced when we looked at households who paid *all* their household bills in cash. (Table 1.3 – final column) In other words, non-pensioner households with no earners, lone parents and social tenants were all over-represented, and to a greater extent than among fuel cash-payers. In addition, householders aged 70 or over were more likely to pay all their bills in cash, as were pensioner households with no-one in employment.

³ This includes people with no gas supply who paid their electricity bill in cash

⁴ Unfortunately, because the Omnibus survey asks about income at the individual rather than the household level, we are unable to include any analysis by income.

Distinctions between different cash payment methods

When we look in greater detail, there are some notable differences between the types of household that use each of the cash payment methods to pay for gas and electricity. Similar patterns are evident for gas and electricity.

Householders who saved up cash to pay for their fuel tended to be older, typically aged 60 or over; and living in pensioner households with no-one in employment (Table 1.4). Four in ten of them lived in social rented housing – twice the proportion in the general population. This was, however, the lowest of the three cash payment methods and compared with other fuel cash-payers those who saved up included the largest proportion of outright owners. Because of their age, many of these households will have always preferred to manage their money in cash. Their circumstances are likely to be relatively stable, and so they can afford to put small sums of money by on a regular basis to pay for fuel and other household bills.

Table 1.4 Cash payment method by characteristics

	Saves up cash		Prepayment meter		Budget scheme	
	Gas	Electricity	Gas	Electricity	Gas	Electricity
<i>Age of respondent</i>						
Under 30	9	9	23	23	14	13
30s	16	12	28	27	17	21
40s	11	11	21	20	25	21
50s	15	13	15	19	17	12
60s	18	18	7	7	14	20
70 or over	31	37	6	5	13	14
<i>Household type</i>						
Single, non-pensioner	13	13	17	20	18	19
Single, pensioner	24	28	2	4	12	14
Couple, no dependent children	31	30	19	19	21	23
Lone parent	7	7	29	22	14	11
Couple, with dependent children	14	11	26	26	25	25
Other	11	11	6	9	10	8
<i>No. earners in household</i>						
None (pensioner household)	38	45	8	8	20	23
None (non-pensioner h/hold)	15	13	34	33	27	24
One	29	27	37	32	22	25
Two or more	19	15	22	28	30	28
<i>Tenure</i>						
Owns home outright	32	33	6	4	13	19
Owns home with mortgage	24	20	17	23	29	28
LA/HA tenant	36	37	68	63	51	44
Private tenant	8	11	9	10	6	9
<i>Weighted base</i>	<i>364</i>	<i>447</i>	<i>217</i>	<i>403</i>	<i>187</i>	<i>161</i>

Base: all households that pay for gas and/or electricity in cash

In contrast, prepayment meter users tended to be young families (Table 1.4). About half of them were in their twenties or thirties and, they included very few pensioners. As a consequence, half were families with dependent children – with lone parents being greatly over-represented. They were also drawn mainly from low-income households – a third of them were non-pensioner households with no earners at all. They were also overwhelmingly

social tenants. This group, then, are less well-off than the cash savers, and are very likely to be struggling to meet their financial commitments while bringing up a family. Indeed, the fact that they are using a prepayment meter indicates that they may well have fallen into arrears with fuel payments in the past.

Budget scheme users were, however, a much more mixed group (Table 1.4). Householders of all ages paid by budget scheme, although those in their 40s were slightly more likely to do so. Their household circumstances did not differ greatly from the general population, except that they included twice the proportion of lone parent households. Even so, lone parents were much less numerous than among the pre-payment meter users. About half of them were social tenants – more than twice the proportion in the general population, but somewhat lower than among the prepayment meter users. At the same time, they included slightly more households buying their home on a mortgage than did users of the other two methods of cash payment. The diverse characteristics of this group almost certainly reflect the fact that they include some people who will have opted to go onto a cash budget scheme because it suits their method of budgeting, while others will have been persuaded to pay this way in order to repay arrears.

How often do households that pay for gas and/or electricity in cash make payments?

On the whole, households either settled their fuel bills in cash quarterly or they made payments once a week (Table 1.5).

Table 1.5 How often do households make cash payments?

Column percentages

	Gas	Electricity
Once a quarter	42	39
Once a week	29	32
Once a month	16	12
Once a fortnight	9	10
More than once a week	4	6
<i>Weighted base</i>	767	1,013

Base: all households that pay for gas and/or electricity in cash

In addition, a high proportion of households with *both* gas and electricity tended to pay for them with the same frequency. As discussed above, convenience is the most likely explanation for this overlap – so, not only do households pay for their gas and electricity in the same ways, they do so with the same frequency.

There was also a clear link between the frequency of payment and payment method. Almost all of the households who saved up cash paid their bills quarterly (85 per cent gas; 87 per cent electricity). The majority of households with a prepayment meter paid weekly or more than once a week (70 per cent for both gas and electricity). While those on a budget scheme paid either weekly (40 per cent for both fuels) or monthly (35 per cent for electricity and 39 per cent for gas).

Consequently two main patterns of payment emerged. Four in ten households that paid for gas and/or electricity in cash saved up and paid their bills quarterly. A further three in ten electricity customers (two in ten gas customers) had a pre-payment meter and paid weekly or more than once a week.

Where do households pay for gas and/or electricity?

As Table 1.6 shows, the Post Office was by far the most popular place for people to make cash payments for gas and/or electricity, cited by almost two thirds (65 per cent) of households that used cash to pay for fuel. A further three in ten (26 per cent) made payments at a local shop, supermarket or garage, of whom around one in ten (8 per cent) specifically said that they used PayPoint⁵.

Around one in ten households (11 per cent) that paid for their gas and/or electricity in cash did so at more than one location. Most commonly, they combined paying for fuel at the Post Office with making payments at a bank or building society branch, a PayPoint outlet, or a local shop/supermarket/garage.

Table 1.6 Where do people make cash payments?

Column percentages

	Gas and/or electricity¹
Post Office	65
Bank or building society branch	15
Local shop/supermarket/garage	18
PayPoint outlet	8
LA/HA/landlord's office	1
Supplier's office/showroom	3
Somewhere else	2
<i>Weighted base</i>	<i>1,055</i>

Base: all households that pay for gas and/or electricity in cash

¹ Respondents could give more than one answer, so percentages add up to more than 100 %

Those using the Post Office mostly paid either quarterly (43 per cent) or weekly (33 per cent). The majority (69 per cent) of householders paying fuel bills in cash at a bank branch did so quarterly, while those paying at local shops or PayPoint outlets typically paid weekly or less (66 per cent and 55 per cent respectively).

There was also a clear relationship between place and method of payment, so that five main payment patterns emerged. In order of prevalence they were:

- Saving up and paying in cash at a Post Office (30 per cent of electricity customers; 32 per cent of gas);
- Prepayment meter at a Post Office (electricity 20 per cent; gas 15 per cent);
- Prepayment meter at a local shop (electricity 16 per cent; gas 9 per cent);
- Budget scheme at a Post Office (electricity 12 per cent; gas 18 per cent);
- Saving up and paying in cash at a bank (electricity 10 per cent; gas 11 per cent).

⁵ It is quite likely that the level of PayPoint usage has been under-reported – people may have stated that they paid at a local shop/supermarket/garage when they were, in fact, using the PayPoint facility at these outlets.

Current account-holding among cash-payers

A remarkably high proportion (71 per cent) of households paying for their gas and/or electricity in cash had a current account that they used on a day-to-day basis⁶ (Table 1.7). Only a quarter (26 per cent) did not have a current account, most of whom had never had one.

The level of engagement with banking was lowest among households that paid their gas and/or electricity bills through a prepayment meter and highest for those who chose to save up the cash to pay their bills (Table 1.7). Even so, it is notable that the majority of cash-payers of all kinds had an account they were using it at the time of the survey, but had chosen not to use it to pay their fuel bills. We explore the reasons for this below.

Table 1.7 Cash payment method by bank current account holding and use

Column percentages

	All cash payers	Saves up cash		Prepayment meter		Budget scheme	
		Gas	Electricity	Gas	Electricity	Gas	Electricity
Has account, and uses	71	82	76	66	68	70	76
Has account, not in use	3	2	3	4	4	3	3
No account, had in past	9	5	6	9	10	11	9
Never had an account	17	12	15	21	18	17	12
<i>Weighted base</i>	<i>939</i>	<i>364</i>	<i>447</i>	<i>217</i>	<i>403</i>	<i>187</i>	<i>161</i>

Base: all households that pay for gas and/or electricity in cash

Why don't households use banking facilities to pay for their gas and/or electricity?

Lack of access to banking facilities was seldom given as a reason for paying fuel bills in cash. Around one person in twenty said that they paid in cash either because they did not have a bank or building society account, or because they had an account but preferred not to use it. Even fewer (1 per cent) said that they used cash because they found it difficult to use a bank or building society (Table 1.8).

The focus groups provide a valuable source of information about why people prefer not to use banking facilities to pay for their fuel bills. The simple answer seems to be that direct debits, which are so popular among the general population, do not meet the needs of households living on low or modest incomes. The general view among the participants was that direct debits were fine for people in work who had a regular, adequate income; otherwise, they were a potentially costly route to loss of financial control.

A number of specific problems were consistently cited by the participants. Most notably, there was a strong sense that direct debits do not offer the level of financial control that people living on modest means value so highly. Not only are they less transparent than cash, they also do not offer the same level of certainty, i.e. payments may be deducted from the holder's account a couple of days either side of the set date. For people with little money in their account, this could lead to charges for overdrawing. In fact, several people in the focus groups related experiences of being charged by their bank for overdrawing their account when they were only a small amount short of the full direct debit amount.

⁶ That is, they had money going into and out from the account.

... I was 2p under what the direct debit was and the bank refused to pay it and they charged me £25 because I was 2p under the amount stated... really they just made things worse, instead of just paying that extra 2p, I mean to me that is so petty...

Indeed, this participant subsequently decided to stop using banking facilities altogether, and switched to a cash budget instead.

Finally, quarterly or monthly direct debits do not generally fit in with the budgeting cycles of people living on low incomes. Most people receiving state benefits as their main source of income are paid either weekly or fortnightly, and so they tend to manage their household finances within the same timeframe. This is equally true for many people engaged in low-paid, casual employment.

Why do households pay their bills in cash?

Recent research has identified financial control as the overriding reason why households choose to pay their bills in cash (Kempson and Whyley, 2001; MORI, January 2001; University of Warwick and University of East Anglia, 2001). Some people find cash payment methods convenient, while for others it is a long-standing habit which they are reluctant to give up. A minority may have little choice - having fallen into arrears they are offered either a prepayment meter or payment by budget scheme (Kempson and Whyley, 2001; MORI, January 2001).

The Omnibus survey mirrors this earlier research fairly closely and, as Table 1.8 indicates, the findings for gas and electricity were almost identical. Financial control, habit and convenience emerged as the three main reasons. Only small numbers either said that they had no choice or that they paid in cash because they lacked a bank account.

Table 1.8 Why do households pay for gas and electricity in cash?

	<i>Column percentages</i>	
	Gas	Electricity
Always done it this way	32	33
Helps keep control of budget	30	29
Prefers to use cash	20	18
More convenient/easier	19	17
Likes to know its paid	11	14
Spreads the cost	8	8
No choice	4	7
Prefer not to use bank account	3	3
No bank/BS account	2	2
Cheaper	2	2
Difficult to use bank/BS account	1	1
Other reason	4	5
<i>Weighted base</i>	<i>767</i>	<i>1,011</i>

Base: all households that pay for gas and/or electricity in cash

¹ Respondents could give more than one answer, so percentages add up to more than 100 %

Financial control

Overall, about four in ten householders in the survey said they used cash to pay for their gas or electricity because it gave them greater financial control. Three in ten said it helped them to keep control of their household budget, and a further one in ten said that paying bills in cash offered certainty – they knew they were paid (Table 1.8).

These findings were echoed by the focus group participants: across the board, the transparency and associated financial control offered by cash methods were identified as the two key reasons why people paid their bills in cash.

... once your bills are paid physically with cash and you can say we have got this for the next week or however long, you can then budget...

I know that I'm in total control when I've got cash.

In addition, several focus group participants liked having the flexibility to miss the odd cash payment if they needed the money for something else.

Habit

A third of households in the survey said that they paid in cash because 'that's how they'd always done it'. Around two in ten simply said that they preferred using cash (Table 1.8). Underlying this was a sense of not wanting to 'rock the boat' – they had an established payment routine that worked, and they were very unwilling to risk changing it.

You get used to doing one thing, don't you? You don't like change.

Convenience

Around two in ten households said that they had chosen to pay in cash because they found it more convenient or easier (Table 1.8). As other research has shown, many of those paying in cash at a Post Office would have been visiting it anyway to collect their state pension or other social security benefits (see for example Kempson and Whyley 2001).

When I cash my money on a Tuesday I just pay everything there and then, if not I would spend the money.

Distinctions between different cash payment methods

Looking in more detail at the reasons people gave for using cash to pay for fuel, there are some notable distinctions between users of different payment methods (Table 1.9).

Among those who saved up cash to pay for their gas or electricity, a combination of habit and a preference for cash largely explain why they used this payment method (Table 1.9). Around half of people who saved up to pay for gas or electricity had always done so (48 per cent for gas; 52 per cent for electricity), compared with less than two in ten prepayment meter and

budget scheme users. Similarly, about a third of cash savers said they simply preferred to use cash, compared with no more than one in ten people who paid by prepayment meter or budget scheme.

Table 1.9 Reasons for paying cash by cash payment method

Column percentages¹

	Saves up cash		Prepayment meter		Budget scheme	
	Gas	Electricity	Gas	Electricity	Gas	Electricity
Always done it this way	48	52	17	16	17	25
Helps keep control of budget	15	14	44	41	43	42
Prefer to use cash	31	28	8	11	11	7
More convenient/easier	15	12	18	18	26	25
Likes to know its paid	7	9	15	20	14	13
Spreads the cost	2	1	12	12	14	15
No choice	0	1	13	15	1	2
<i>Weighted base</i>	<i>364</i>	<i>447</i>	<i>217</i>	<i>403</i>	<i>187</i>	<i>161</i>

Base: all households that pay for gas and/or electricity in cash

¹ Respondents could give more than one answer, so percentages add up to more than 100 %

As we already know, cash savers tended to be older people who had always managed their money in cash, and were quite happy doing so. They were also somewhat better off than people using other cash payment methods – not only could they afford to put money aside for their fuel bills, but budgetary control was far less of an issue for them. Nor were they concerned about spreading the cost of fuel payments.

In contrast, keeping financial control was the overriding reason why people used prepayment meters and budget schemes to pay for their gas and/or electricity (Table 1.9). Around six in ten prepayment meter and budget scheme users cited aspects of budgetary control as a reason for using these payment methods.

Lack of choice was only really an issue for prepayment meter users (Table 1.9). This indicates that either they had had meters installed to repay arrears on their gas and/or electricity or they had moved into a home with an existing prepayment meter.

Spreading the cost of fuel was also much more of a consideration for people paying by these methods than it was for those who saved up cash (Table 1.9). For example, 15 per cent of electricity budget scheme users give this as a reason, compared with only one per cent of people who saved up to pay for their electricity. In the focus groups, participants regarded spreading the cost of payments as the main reason for using prepayment meters.

Finally, convenience was given much greater weight by budget scheme users than other cash payers (Table 1.9). Focus group participants also valued the convenience of this method; in particular, they liked being able to pay for most of their household bills in this way at the same place, typically a post office or PayPoint outlet.

Overall, then, households using prepayment meters and budget schemes were very different to cash savers – as mentioned earlier, they were likely to be younger people with families, living on low incomes, and often struggling to manage. For them, prepayment meters and budget schemes offer a valuable way of maintaining some control over tightly-stretched household budgets.

Combining cash and banking facilities to pay for gas and electricity

As we saw earlier, 11 per cent of households used cash for one fuel bill and banking facilities for the other.

This group of 'combination payers' were rather better-off than those only paying in cash. They included more couples, and particularly those with no dependent children and many fewer lone parents and single pensioners. Consequently, there was a much higher proportion of households with two earners and far fewer with none. Many more were homeowners, and twice as many of them were buying their home on a mortgage (Table 1.3).

The focus groups give us some idea of the reasons why people combine payment methods in this way to pay for household bills. For most people, using banking facilities was synonymous with paying by direct debit, and seemed to be linked either to the payment of income into the bank, or a lack of choice of payment method. Earlier research has also highlighted the greater flexibility that combining payment methods gives to low-income consumers (Kempson et al, 1994).

Chapter 2 Switching payment methods

Within the competitive domestic energy market, the cheapest tariffs for gas and electricity are available only to those consumers who pay by direct debit. Consequently, there has long been concern among those involved in tackling fuel poverty and financial exclusion that poor households, and particularly those using prepayment meters, end up paying more for gas and electricity because they use cash payment methods. Not only is gas and electricity more expensive when paid for in this way, but cash customers may also incur extra costs for actually making payments, for example if they pay cash over the counter at a post office or bank branch.

There have been a number of moves to address this disparity, including a cap on the surcharges to electricity prepayment meter users (Electricity Association Fuel Poverty Task Force, 2001), and partnerships between energy suppliers and financial institutions to encourage the take-up of bank accounts and use of direct debits among unbanked consumers (Ofgem, 2001). Commercial and non-commercial organisations within the energy industry have also joined together to explore how more poor households could benefit from using direct debit facilities provided through intermediaries such as credit unions.

However, as we saw in the previous chapter, the financial control and transparency provided by cash payment methods were, for most households, more important than the higher fuel costs that went with them. It is also likely that, among the older generation of habitual cash savers, there will be little appetite for changing payment methods.

This chapter explores in greater detail people's views and experiences of switching payment methods. It begins by examining how satisfied households were with their current payment methods, and explores why some consumers were more satisfied than others. It then goes on to examine the likelihood of households changing from their current cash payment methods, and distinguishes the types of households that would be most willing to switch. Using data from the focus groups, we explore people's attitudes to using a bill payment service provided through a community finance initiative, as proposed in the Factor Four approach. Bringing this information together, we outline the key features that a new bill payment service would have to incorporate, if it were to attract householders who currently pay for some or all of their fuel in cash.

Satisfaction with current payment methods

Recent research on the payment of gas and electricity indicates that, across the range of payment methods, the great majority of consumers are happy with the way they currently pay for their fuel (MORI, January 2001). This was even the case among prepayment meter users, most of whom realised that paying in this way was more expensive than other methods (University of Warwick and University of East Anglia, 2001).

High levels of satisfaction were also expressed by householders in the survey who paid for some or all of their fuel in cash, with virtually no difference between gas and electricity. Overall, nine out of ten (92 per cent) were happy with their current methods of payment, and most of these were very happy. Fewer than one in ten (6 per cent) held mixed views, and only a very small number (3 per cent) were dissatisfied (Table 2.1).

Table 2.1 Overall satisfaction with current payment methods for gas and electricity

	<i>Column percentages</i>		
	Gas	Electricity	Overall
Very satisfied	59	57	56
Satisfied	34	35	35
Neither/Mixed views ¹	4	5	6
Dissatisfied	3	3	3
<i>Weighted base</i>	<i>771</i>	<i>1,015</i>	<i>1,058</i>

Base: all households that pay for gas and/or electricity in cash

¹ on the overall score this category includes people who were satisfied with one bill but not with another

Who was most satisfied?

A small number of factors were significantly correlated with levels of satisfaction: age, the number of earners in a household, tenure and region.

Levels of satisfaction increased steadily with age, so that nearly all (97 per cent) householders aged 70 or over who paid for their gas and/or electricity in cash were satisfied with their current payment method. Many of these people would be saving up to pay their household bills, and as we discussed earlier, have probably always dealt in cash, and prefer doing so. Not surprisingly, pensioners living in households where no-one worked and outright home owners had similar levels of satisfaction (Table 2.2).

In contrast, lower levels of satisfaction appeared to be most common among younger people aged under 40, non-pensioners living in households with no-one in work and private tenants (Table 2.2). Given these circumstances, it seems reasonable to assume that this is probably linked to having to use prepayment meters that have been installed by a landlord for gas and/or electricity. In addition, households living in London were much less likely to say they were satisfied with their payment method although, again, they tended to have mixed views rather than be dissatisfied (Table 2.2).

Table 2.2 Satisfaction with payment method by personal and household characteristics

	<i>Row percentages</i>			
	Satisfied	Mixed views	Dissatisfied	Weighted base
Age of respondent				
Under 30	85	9	6	160
30s	86	10	4	205
40s	92	6	2	175
50s	94	4	3	158
60s	94	6	1	145
70 or over	97	2	1	214
No. earners in household				
None (pensioner household)	97	3	0	275
None (non-pensioner household)	87	8	5	236
One	92	7	1	306
Two or more	89	7	5	240
Tenure				
Owns home outright	95	4	1	207
Owns home with mortgage	90	8	2	245
LA/HA tenant	92	6	2	503
Private tenant	83	9	8	102
Region				
The North	93	5	2	308
Midlands and East Anglia	94	3	3	268
London	80	15	4	92
South East	91	7	3	107
South West	90	8	1	72
Wales	91	9	0	69
Scotland	89	8	3	142

Base: all households that pay for gas and/or electricity in cash

Levels of satisfaction with different payment methods

On the whole, levels of satisfaction differed very little between the three main methods of cash payment. Indeed, for gas bills there was no statistically significant difference between them. Among electricity customers, however, prepayment meter users were slightly less satisfied than either those who saved up and paid their bill in cash or who paid through a budget scheme (Table 2.3).

Table 2.3 Satisfaction with payment method for electricity by method of payment

	<i>Row percentages</i>			
	Satisfied	Mixed views	Dissatisfied	Weighted base
Method of paying for electricity				
Saves up cash	95	4	1	449
Prepayment meter	88	6	6	405
Budget scheme	95	2	2	161

Base: all households that pay for gas and/or electricity in cash

Overall views of cash payment methods

In addition to being asked how satisfied they were with paying their bills in cash, survey respondents were also asked how strongly they agreed or disagreed with a series of statements relating to paying in cash. Using a statistical technique known as principal component analysis we were able to identify four underlying attitudes that related to convenience of paying in cash, the financial control it gives, cost and risk of disconnection.

Table 2.4 Overall views of cash payment methods

	All cash payers	Column percentages					
		Gas			Electricity		
		Saves cash	PPM	Budget scheme	Saves cash	PPM	Budget scheme
<i>Gives more financial control</i>							
Agrees	87	84	94	90	81	94	91
Neither agrees nor disagrees	10	12	4	8	14	5	7
<i>Disagrees</i>	3	4	2	2	5	1	2
<i>More convenient</i>							
Agrees	75	71	83	77	68	82	76
Neither agrees nor disagrees	15	20	8	14	20	9	15
Disagrees	10	8	9	9	12	9	9
<i>Run the risk of disconnection</i>							
Agrees	58	58	60	66	57	55	70
Neither agrees nor disagrees	14	24	1	8	27	2	7
Disagrees	28	18	39	26	16	43	23
<i>More expensive</i>							
Agrees	33	28	37	36	27	39	38
Neither agrees nor disagrees	24	27	17	25	30	19	22
Disagrees	43	45	46	39	44	42	40
Weighted base	1,051	360	218	186	444	402	161

Base: all households that pay for gas and/or electricity in cash

As Table 2.4 shows, there was overwhelming support for the proposition that paying in cash offers more financial control – echoing the reasons why people said that they had opted to pay in this way, described in the previous chapter.

Moreover, three quarters of the people interviewed also agreed that paying in cash was more convenient – which was, likewise, a prime consideration in people’s choice of payment method (Table 2.4). There was some notable variation, however, depending on where people made cash payments. Consequently, those paying in cash over the counter at a bank or building society were much less likely to agree that cash was convenient compared with people using a post office (63 per cent compared with 77 per cent respectively).

Interestingly, a clear majority also believed that they ran a risk of disconnection, even though they believed that their chosen payment method gave them financial control (Table 2.4).

It was, however, the replies in relation to cost that were particularly interesting. Only a third believed that payments in cash were more costly; yet, in just about all cases, they are more expensive when compared to payments made by direct debit or standing order. Indeed, the cost of gas and electricity seemed to be much less of a consideration than financial control.

Among the focus group participants, only a small number of people did not realise that it was more expensive to pay for gas and electricity in cash; most knew that they were paying more for their fuel than direct debit users. Several people felt very strongly that it was unfair that the ‘poor paid more’ because they paid in cash.

... to pay it weekly or fortnightly is easier for us but they know that they are gaining more money out of us at the same time, which is unfair because we struggle enough as it is, without having to pay out more in the long run.

Most participants, however, accepted the additional cost as a trade-off for being able to use payment methods that suited their needs and circumstances.

In the previous chapter, we noted the widespread apprehension about bank charges that was expressed in the focus groups. In fact, the Omnibus survey showed that far more people agreed that there was a danger of incurring bank charges if they paid through a bank account (87 per cent) than agreed that it was more expensive to pay in cash or by prepayment meter (33 per cent).

There were some interesting variations in the views held by people who paid by the three different payment methods. Prepayment meter customers were the ones who were most likely to say that they found cash payments more convenient and that prepaying for gas and electricity gave them more financial control (Table 2.4). Concerns about disconnection were uppermost in the minds of budget scheme customers, and, interestingly, it was prepayment meter users who most commonly thought that they did not run this risk. Finally, although costs were only of concern to a minority of users of all three types of payment method, they were of least concern to the ones who saved up to pay their bills quarterly. This is not altogether surprising as, although they do not benefit from the discounts offered to customers who pay by direct debit, they do not incur the additional charges that many prepayment meter or budget scheme customers face.

Willingness to switch payment methods

Households in the Omnibus survey who paid for gas and/or electricity in cash were asked how willing they would be to change their method of payment if it meant they could access cheaper fuel. They were fairly evenly divided between those who would and those who would not. Just under half (45 per cent) said they would switch – 24 per cent definitely and 21 per cent possibly. However, over half (55 per cent) said they would not switch from their current cash payment method, even if it meant getting cheaper gas or electricity.

To give some idea of the level of enthusiasm for switching within the context of the general population, households that would definitely be willing to switch comprise 8 per cent of the population, or around 2 million households. Those who might change their payment method to access cheaper fuel make up a further 7 per cent (approximately 1.7 million households), while those unwilling to switch comprise 17 per cent of the population as a whole (around 4 million households).

In the following section, we present a cautious estimate of the likely demand for a new type of bill payment service as this gives a somewhat sharper picture of the findings. As such, we focus on those households that said they would *definitely* be interested in changing to another

payment method. There were, in any case, few significant differences between the types of households that said they *might* switch.

What types of households would be most likely to switch to a different payment method?

As Table 2.5 indicates, willingness to switch payment methods was correlated with a number of personal, household and economic characteristics: age, household type, the number of earners in the household and tenure. There were no statistically significant regional differences. From this, we can see that the households most likely to change their fuel payment method to access cheaper tariffs comprised:

- People aged under 50;
- One and two parent families with dependent children;
- Households with one earner;
- Mortgage-holders and private tenants.

Overall, around a third of each of these groups stated that they would definitely consider switching to a cheaper payment method. Between 18 and 24 per cent of them said that they might switch (Table 2.5).

Table 2.5 What types of households would be most likely to switch payment methods?

	Row percentages			
	Definitely likely to switch	Might switch	Not likely to switch	<i>Weighted base</i>
<i>Age of respondent</i>				
Under 30	32	22	46	<i>160</i>
30s	33	21	46	<i>205</i>
40s	30	23	47	<i>175</i>
50s	18	23	59	<i>159</i>
60s	19	21	60	<i>146</i>
70 or over	12	20	68	<i>213</i>
<i>Household type</i>				
Single, over 65	14	19	68	<i>160</i>
Single, under 65	23	25	51	<i>175</i>
Couple, no dependent children	21	24	55	<i>265</i>
Lone parent	32	22	46	<i>143</i>
Couple, with dependent children	28	19	53	<i>206</i>
Other	27	17	56	<i>105</i>
<i>No. of earners in household</i>				
None (pensioner household)	12	21	67	<i>275</i>
None (non-pensioner household)	25	19	56	<i>236</i>
One	31	24	46	<i>306</i>
Two or more	27	22	51	<i>241</i>
<i>Tenure</i>				
Owns home outright	16	22	59	<i>206</i>
Owns home with mortgage	31	24	45	<i>245</i>
LA/HA tenant	22	21	58	<i>502</i>
Private tenant	32	18	50	<i>103</i>

Base: all households that pay for gas and/or electricity in cash

In contrast, older householders were most resistant to change. Consequently, the types of householders least likely to change their payment method were:

- Aged over 50, and particularly those aged 70 or more;
- Single pensioners living alone;
- Living in pensioner households with no-one in paid employment;
- Householders who owned their homes outright.

Current cash payment methods

The ways in which households paid in cash for their gas and/or electricity did not have much bearing on their willingness to switch. In relation to paying for electricity, the type of payment method had a negligible impact. Among gas consumers, however, those who either saved up cash to pay their bill or used prepayment meters were slightly more likely to say they would change their payment method if it reduced their bill than those paying by budget scheme (Table 2.6).

Table 2.6 Paying for gas and/or electricity in cash

	Row percentages			
	Definitely likely to switch	Might switch	Not likely to switch	Weighted base
<i>Cash payment method for gas</i>				
Saves up cash	25	20	55	364
Prepayment meter	26	18	56	218
Budget scheme	21	18	61	187
<i>Cash payment method for electricity</i>				
Saves up cash	23	23	55	449
Prepayment meter	23	20	57	404
Budget scheme	23	21	56	160
<i>Where are payments made?</i>				
Post office	22	21	57	686
Bank or building society branch	36	24	40	156
PayPoint outlet	26	21	53	88
Local shop/supermarket/garage	27	20	53	192

Base: all households who pay for gas and/or electricity in cash

Furthermore, when we examine people's attitudes to cash payments, only one of the four underlying attitudes to paying in cash - convenience - was statistically significant in relation to their willingness to change payment methods (Table 2.7). Around a third (35 per cent) of householders who considered cash payment methods to be *inconvenient* were keen to change the way they paid for their gas and/or electricity. In contrast, only a fifth (21 per cent) of householders who agreed that cash methods were convenient would definitely think about changing their payment method (Table 2.7).

Table 2.7 Willingness to switch by attitudes to payment methods

	Row percentages			
	Definitely likely to switch	Might switch	Not likely to switch	Weighted base
More convenient				
Agrees	21	21	57	784
Neither agrees nor disagrees	30	19	50	159
Disagrees	35	27	38	106
Run risk of disconnection (PPM users)				
Agrees	27	19	54	244
Neither agrees nor disagrees	*	*	*	*
Disagrees	21	22	57	186

Base: all households that pay for gas and/or electricity in cash

* numbers too small for analysis

In addition, while households with prepayment meter were less worried about disconnection from their fuel supply than those who paid by budget scheme (see above), it is worth noting that prepayment meter users who *were* concerned about disconnection were more likely to change the way they paid for gas and/or electricity than those who were not (27 per cent compared with 21 per cent respectively) (Table 2.7).

As we know, financial control was an overriding concern among households paying for gas and/or electricity in cash. Although it was not statistically significant as an indicator of people's willingness to switch payment methods in the survey⁷, financial control did emerge as an important factor in the focus groups. Of the small number of people who had changed how they paid for their gas or electricity in the past, most had switched from paying by direct debit to a cash method. This was usually prompted by being charged by the bank for overdrawing their account when a direct debit was processed. Only one person, an older woman, said she had switched methods to access cheaper fuel – even then, she had changed from one cash method (prepayment meter) to another (saving up cash at home to cover her quarterly bill).

Overall, satisfaction with current payment methods seemed to be a better indicator of householders' attitudes to switching to another way of paying for their fuel. Among the survey respondents, those who held mixed views or were dissatisfied with the way they paid for their gas and/or electricity were almost twice as likely to seriously consider switching their payment method than those who were satisfied (50 per cent compared with 22 per cent respectively). And, as we know from earlier analysis, the types of householders who tended to be less satisfied with their payment methods were those aged under 40; non-pensioners living in households with no-one in work; and private tenants.

Use of banking facilities

Attitudes to switching payment methods were highly correlated with households' use of banking facilities, so that the more financially integrated householders were, the more likely they were to consider switching their bill payment method to obtain cheaper gas and electricity. This was evident in two main areas: current account-holding and the use of banking facilities to pay bills.

⁷ This is probably because it *was* such as widely-held view.

Households that had had some engagement with banking, either now or in the past, were far more enthusiastic about changing their payment method than those that had always been outside the banking system. Fewer than two in ten (16 per cent) householders who had never had a current account were definitely willing to change their payment methods, compared with a quarter of those currently using an account and the same proportion who had used one in the past (Table 2.8).

Moreover, householders who combined cash and banking facilities to pay for fuel were almost twice as likely to say they would definitely change the way they paid than those who paid for their fuel entirely in cash (40 per cent compared with 22 per cent respectively). A similar, though less striking, pattern was evident in relation to how householders paid for *all* their bills (Table 2.8).

Finally, *where* householders paid for their gas and/or electricity had a pronounced effect on their views about changing payment method. Consequently, householders who paid for their gas and/or electricity in cash at a bank or building society branch were far more likely to consider switching than those paying at other locations, and particularly those paying at a post office (Table 2.6).

Table 2.8 Use of banking facilities

	Row percentages			
	Definitely likely to switch	Might switch	Not likely to switch	Weighted base
Current account-holding				
Has account and uses	25	23	52	777
Disengaged from banking ¹	25	19	57	113
Never had an account	16	16	68	161
Paying for gas and/or electricity				
Cash only	22	21	57	940
Cash and bank	40	23	37	118
Paying for all household bills				
Cash only	19	19	62	499
Cash and bank	28	24	48	552

Base: all households who pay for gas and/or electricity in cash

¹ This includes householders who have a current account that they don't use and those who had an account in the past.

The Factor Four approach: paying for fuel through a community finance initiative

Central to the Factor Four approach to tackling fuel poverty is the development of bill payment services provided through community finance initiatives, such as a credit union or community reinvestment trust.

At present, there are over 700 credit unions in Britain with more than 300,000 members in total. Of these, just under 600 are community-based, that is, their common bond is either based on living in an area; living or working in an area; or belonging to a particular association. The rest are employee-based, such as East Midlands Postal Workers credit

union, which historically have tended to have larger memberships and greater assets. The movement has been slow to develop in Britain, and currently only covers around one per cent of the population. However, recent changes to the regulation of credit unions, including a relaxation of the strict rules on common bonds, are designed to encourage future growth of larger, more professional and economically sustainable credit unions.

In addition, other types of community finance initiatives have been developed over recent years, most notably community reinvestment trusts such as Portsmouth Area Regeneration Fund and Salford Moneyline which provide loans to individuals and small businesses, and saving and loan schemes offered by housing associations to their tenants. At present, these are small in number and as yet have been used by relatively few people (probably no more than a thousand).

If established, the new bill payment service would allow people to continue making small regular payments for gas and electricity at a credit union or other community finance initiative; these payments would then be passed to the relevant energy supplier using a direct debit set up from the community finance initiative's account, enabling service users to benefit from cheaper tariffs

This new type of bill payment facility was introduced and discussed in the focus groups. The three areas in which the groups were held all have a community finance initiative. Two of the localities, in Birmingham and Liverpool, have well-established community credit unions.

Registered in 1987, the credit union in Birmingham has around 380 members, representing around one per cent of the resident population of the area. The credit union in Liverpool was registered in 1990 and is much bigger, with over 2,200 members. However, it also covers a much larger geographical area, and consequently its membership only represents about two per cent of the resident population⁸.

The third location, Portsmouth, has a recently-established community reinvestment trust which currently provides loans to local people who are excluded from mainstream financial services⁹. The initiative is partly funded through the Single Regeneration Budget, and it is anticipated that most of its customers will be drawn from the four neighbourhoods covered by this funding. However, anyone living at an address with a Portsmouth postcode can apply for a loan. In the first 15 months of operation, 292 local people have been provided with loans.

Two focus groups were held in each of these three areas, one comprising current users of the local community finance initiative and one with non-users.

It was clear from the discussions among focus group participants that two main hurdles to using a new service emerged: first, people's willingness to change their current payment method; and second, their willingness to pay bills through a community finance initiative.

People in three of the six groups expressed interest in switching to a service of this kind; perhaps not surprisingly, all were current users of community finance initiatives. But their support for a new service was conditional rather than unreserved – there were a number of

⁸ These figures are only intended to give a rough idea of credit union penetration in these areas, based on ward-level data produced by National Statistics. The figures for credit union membership are taken from the Abcul website.

⁹ It also plans to offer other financial services in the future.

questions they would want answered before switching from their current methods, and these are outlined in the following sections.

There was no enthusiasm among other participants to change the way they paid for their gas or electricity, even if it was cheaper. The most likely explanation for this division of opinion is that people who are already using a community finance initiative (whether to save, borrow or both) have built up a relationship of trust with the organisation, and are used to conducting financial transactions through it. For them, switching to pay their bills through the same organisation to access cheaper fuel would seem like a fairly rational step.

On the other hand, people with little knowledge or experience of community finance initiatives, like the other focus group participants, will be reluctant to switch to a new service with no track record of performance or delivery, offered by an unfamiliar organisation.

Half of these schemes they do, on paper it looks good, they tell you all about it, it sounds good, you go 'Right we will go for that', start it off and it works okay for a month or two and then it goes down the pan.

For them, having an established bill payment routine that fitted in with their budgeting cycle was far more important than making cost savings. More specifically, one or two people who pre-paid for their fuel were worried about being able to manage their money without the aid of a prepayment meter.

I like the idea of going out, getting my electric, going home, putting it in, and it's there, I can see it, and it's for the week. But going to an organisation and paying them, I would be like, 'Is it going to last me the month? Will I end up paying more?'

Drawing together information from the focus groups and the Omnibus survey, we can build up a picture of the kind of bill payment service low-income consumers would find attractive, in terms of the type of service offered; the preferred providers; access; and payment mechanisms. In the final section, we consider the likely target market for the service.

Type of service

In order to stand any chance of attracting low-income consumers, a new bill payment service will have to incorporate all of the following key features:

- Be free at the point of delivery;
- Provide equivalent financial control and transactional transparency to the cash payment methods people currently use;
- Be as, or more, convenient than the ways in which people currently pay for their gas and electricity. In particular, people wanted to be able to pay most, if not all, their household bills at the same place.

Cost

Although paying more for fuel was not a primary consideration for people in the focus groups, being charged to make those payments was. Several people talked about 'shopping around' to make fuel payments in order to avoid the transaction costs charged by some banks and building societies, and passed on by some companies through the Post Office.

... the post office normally tells you before, anyway. They say, 'Do you know there is a charge?' Sometimes I pay it if I can't be bothered to walk up to the bank, but then other times I think, I'll walk up to the bank.

Like PayPoint, then, any new bill payment service would clearly have to be completely free in order to attract potential customers.

Financial control and transparency

As we saw in Chapter 1, spreading the cost of fuel by using pay-as-you-go payment methods was an important means of retaining budgetary control, especially among younger families. A new service would, therefore, have to allow people to continue making small, regular payments towards their gas and electricity when they received their income.

Moreover, credit union members in the focus groups stressed the importance of having a separate 'bill payment' account that was quite distinct from their savings account. The last thing they wanted was to use their savings for paying bills.

The Factor Four proposals are based on the assumption that payments made by consumers will be passed by direct debit from the community finance initiative to the suppliers, this being the most efficient and cost-effective method of disbursement. Given people's concerns about direct debits outlined earlier, it is unsurprising that people in the focus groups talked about the need for safeguards if their payments were passed on in this way. First, they would want some proof that payments had been made to the supplier, in the form of a receipt or a statement. Second, they wanted assurance that suppliers would be able to track payments back to the individual, to minimise the risk of 'missing payments'.

Equally, people recognised the need for a new service to have effective risk management and debt recovery procedures if it was to function and survive, just like any other mainstream financial service. In order to achieve this, community finance initiatives will have to be well-resourced, in terms of both technical infrastructure and skilled staff.

Convenience

We know from the Omnibus survey (Chapter 1) that a fairly high proportion of householders paying for both gas and electricity did so in the same way, at the same place, and with the same frequency. Routine and convenience was equally important for the focus group participants – they want to be able to pay most or all of their household bills at the same time and at the same location as they receive their income. In other words, they will be less inclined to switch payment methods if a community finance initiative only offers the facility to pay one of their bills, and they also have to collect their income from somewhere else.

Even if a Factor Four bill payment service could offer all the same advantages of people's current payment methods, the question remains – what would persuade people to change from something they are familiar with to something new? The answer clearly lies in the cost savings that people could benefit from by switching. For low-income consumers to be swayed, however, the new service will have to offer significant cost savings, probably in the region of £4-£5 per week. For many people, it would simply not be worthwhile disrupting their established routines for any less.

Service providers

Previous research on access to financial services found that low-income consumers want to deal with 'household names' that are reliable and financially secure (Kempson and Whyley, 1999). However, there is also evidence of considerable antipathy towards banks and building societies among people living on the margins of financial services (Collard et al, 2001). For many of these people, the Post Office is currently the only institution that bridges this divide (Kempson and Jones, 2000). As community finance initiatives grow in size, number and reputation, their role as a viable alternative within the financial services sector will hopefully increase.

The potential for community finance initiatives to deliver bill payment, and other financial services, was illustrated by a focus group held on a large housing estate situated on the edge of a city. The last bank branch in the area had closed down some years before. There was, however, a well-established community finance initiative with shop front premises. Users of this organisation favoured paying all their bills through it, as well as having their income paid directly into it.

I would like the credit union to turn into a proper bank where you could have money paid in, pensions paid in, and be able to pay all our bills that way, like it used to be when we had [high street bank].

On the whole, it seemed that once users had built up a good working relationship with the community finance initiative, they tended to be fairly well-disposed towards any new financial services it might offer.

Access

Local access has been consistently highlighted as a key feature in the delivery of services, financial and otherwise (Collard et al, 2001; Speak and Graham, 2000; Kempson and Whyley, 1999). Based on research evidence, PayPoint took a decision that people should have to travel no further than one mile in urban areas and five miles in rural localities to use its outlets. And, for most people in the focus groups, 'local' meant no further than the nearest post office¹⁰.

In addition, a bill payment service provided through a community finance initiative would have to offer similar, if not better, opening hours than post offices and PayPoint outlets. In practice, that meant being open at least five days a week, with minimum opening hours of 9am to 5pm.

Payment mechanisms

Previous research indicates that people on low incomes and the elderly are not comfortable using facilities like plastic cards and cash machines because, like direct debits, transactions

¹⁰ In the UK, 94 per cent of people live within a mile of a post office. In urban areas, over 90 per cent of people live within half a mile of a post office (Performance and Innovation Unit, June 2000).

are less visible, making it harder to keep control of their budget (Kempson and Whyley, 2001; Kempson and Jones, 2000; Kempson and Whyley, 1999; Whyley et al, 1997). Similarly, older people and the un-banked are particularly averse to using new forms of technology for money management (Kempson and Whyley, 2001).

Although payment mechanisms were not specifically discussed in the focus groups, borrowers from the community reinvestment trust talked about the ease and convenience of repaying their loans at the post office using 'smart cards' instead of giro credit slips.

Target market

The Omnibus survey gives us a clear picture of the types of households that are most likely to change how they pay for gas and/or electricity to access cheaper tariffs. And, from the focus groups, it seems that a bill payment service operated through a community finance initiative would (initially at least) be most effectively targeted at existing users of such initiatives. But how much overlap is there between the households most willing to switch and the types of people who use community finance initiatives?

The longest-established community finance initiatives in Britain are community credit unions. From the little research that has been conducted on the profile of their membership, there does seem to be some crossover between credit union members and the households most willing to switch their payment methods.

First, in terms of age, community credit unions draw their membership largely from middle-aged people; both younger and older people are under-represented (Whyley et al, 2000). The householders who were most willing to switch their payment methods were largely aged under 50, so the older people among them would be the most likely candidates for credit union membership.

Second, community credit union members are likely to be in employment, mostly working full-time (McArthur, McGregor and Stewart, undated). According to work conducted in Birmingham, unemployed people are under-represented among its credit union members (Feloy and Payne, 1999). This fits the profile of willing switchers in the survey, who were largely drawn from households with one earner.

Finally, the Birmingham study also indicates that credit unions there have a disproportionately high level of lone parents among their members. According to the Omnibus survey, one-parent families were among the households most willing to switch their payment methods.

While this overlap is encouraging, it is clear that, apart from a proportion of the lone parents, the groups most likely to switch to a bill payment service provided through a credit union will not be the poorest, nor the fuel-poor. This mis-match may, however, be redressed to some extent by promoting bill payment services through community finance initiatives specifically targeted at low-income communities, such as Portsmouth Area Regeneration Trust and credit unions within deprived neighbourhoods. Even so, encouraging poorer, more risk averse households to try a new bill payment service will present a considerable challenge.

Chapter 3 A Factor Four approach to tackling fuel poverty

As well as a bill payment service, previous research (Conaty and Mayo, 1997) identified three other elements that people living on low incomes would like to access through an integrated service:

- energy efficiency advice, including information and help to access grants;
- budgeting and money management advice, including advice about tax and benefit entitlements;
- information and advice on getting the best deal in the competitive domestic energy market.

Together, these four services offer a comprehensive (Factor Four) approach to tackling fuel poverty. A new bill payment service, along with energy efficiency measures and advice on getting the best deal from suppliers would enable service users to benefit from cheaper fuel bills. Budgeting and money management advice would, on the other hand, ensure that service users received all the income and benefits to which they were entitled, as well as helping them to resolve any financial difficulties that they faced.

Drawing on the Omnibus survey and the focus groups, this chapter explores the three advice-related factors in turn, and examines the demand for a combined Factor Four service.

Energy efficiency advice

At present, data on the take-up of energy efficiency advice is extremely limited. The research evidence indicates, however, that ownership of energy saving measures is lower among households with unemployed members and low incomes, and among households pre-paying for their gas and/or electricity (University of Warwick and University of East Anglia, 2001). It is also estimated that probably no more than five per cent of disadvantaged householders in the UK receive advice on energy efficiency measures each year through the three main routes, namely energy companies, energy efficiency advice centres and home energy efficiency schemes (Boardman and Darby, 2000).

As part of the regulatory requirements governing the domestic energy market, electricity and gas suppliers are obliged to deliver energy efficiency schemes to their customers. In recent years, this help and advice has been particularly aimed at low-income, fuel-poor households, with all suppliers being required to target two-thirds of their expenditure on disadvantaged customers (Electricity Association Fuel Poverty Task Force, 2001). A wide range of schemes has been introduced under this requirement, including npower's Health through Warmth initiative and Scottish Power's NEST Makers scheme. To date, these initiatives are estimated to have reduced energy bills of disadvantaged households by an average of £7-£8 per year (Electricity Association Fuel Poverty Task Force, 2001). Clearly, then, access to effective

energy efficiency advice and practical help to implement energy saving measures are crucial elements in the fight to combat fuel poverty.

Table 3.1 Likelihood of using information and advice services on energy efficiency, money management and budgeting, and the competitive energy market

Column percentages

	Energy efficiency advice	Money and budgeting advice	Information about the competitive market
Very likely	24	13	13
Fairly likely	29	23	25
Fairly unlikely	19	24	21
Very unlikely	28	40	41
<i>Narrow definition</i>			
Very likely	24	12	13
Not very likely	76	88	87
<i>Broad definition</i>			
Likely	53	36	38
Not likely	47	64	62
<i>Weighted base</i>	<i>1,058</i>	<i>1,058</i>	<i>1,058</i>

Base: all households that pay for gas and/or electricity in cash

How many households were likely to use energy efficiency advice?

As Table 3.1 shows, of the three factors described above, energy efficiency advice was by far the most popular among the households surveyed. Over half (53 per cent) of households paying for gas and/or electricity in cash said they would be interested in accessing energy efficiency advice. Among those who were interested, slightly more said they were fairly likely to use this type of service, than said that they were very likely to do so (29 per cent compared with 24 per cent respectively).

A rather different picture emerged from the focus groups, where energy advice was the service that fewest people said they needed. In all three areas where the groups were held, people explicitly stated that this type of help and advice was already available, particularly for those not in work. Providers included the local council, registered social landlords, voluntary organisations such as Age Concern, and utility companies. The existence of local provision, along with the fact that many focus group participants would be eligible for advice and help may well explain why only two of the six groups felt that a new energy efficiency advice service would be useful.

Although people who participated in the focus groups knew that energy efficiency advice was available locally, they were less familiar with the detail of schemes, and so did not fully appreciate the potential benefits. Indeed many people equated fuel efficiency with using off-peak supply and said that their circumstances meant that they could exert little control over when they used fuel.

You can't time yourself to when you want a cup of tea or when you need to wash the dishes or when your kids are going to have a bath or when you're going to do the washing. You can't time that because they usually say to you, use so much at this time of day. Don't use so much at that time of day. If you live in a block of flats where you haven't got a balcony you need a drier. You've got to fling those clothes in the drier any time of the day... so these energy saving things are rubbish.

There was a generally held view among that advice on energy efficiency measures was, in their words, a 'waste of time', especially when you had children who had to have baths, needed to be kept warm and forgot to turn the lights off. This is broadly consistent with other research, which highlighted the lack of awareness of energy efficiency measures among low-income households (Boardman and Darby, 2000).

Money advice

According to the energy regulator, around one million customers (both gas and electricity) are currently believed to be repaying a fuel debt through a payment scheme (Ofgem, 2001). Even so, a recent survey conducted with customers of a national energy supplier suggests that the majority of indebted consumers do not seek, and are not proactively offered, any help in relation to fuel debt (Powergen/Ofgem, 2001).

In an attempt to overcome these types of problems, new industry Codes of Practice require domestic energy suppliers to take a more proactive approach to debt prevention, through early contact and better dialogue with customers (Ofgem, 2001). While this is a welcome move, many indebted energy customers are likely to be in difficulty with other financial commitments, and so need more wide-ranging help and advice. The provision of free, high quality money advice is therefore key to helping people in fuel debt attain greater financial stability and control over their household budgets. As with energy efficiency advice, though, money advice will need to be targeted effectively to reach low-income, fuel poor households, as they tend to be under-represented among users of money advice services compared with the number who are in debt (Kempson, 1995).

How many households were likely to use money advice?

Far fewer households were keen to use money advice compared with energy efficiency advice, with just under four in ten (36 per cent) households being attracted to the idea. Even among the households that were interested, there was more muted enthusiasm – the majority said that they were only fairly likely to use a money advice service (Table 3.1).

Participants in four of the six groups felt that a money advice service would be useful, and were interested in both money management (e.g. when setting up home) and debt advice (e.g. help when they got into arrears or had difficulties keeping up payments). A small number of focus group participants had used a money advice service in the past, and on the whole their experiences were positive. As in previous research (Collard et al, 2000), they valued being able to talk openly with an adviser who was not patronising or judgmental, in a confidential environment.

Information and advice about the competitive energy market

By October 2000, over 19 per cent domestic electricity and 29 per cent domestic gas customers had switched supplier. Customers with very low incomes (defined as less than £4,500 per year); those using prepayment meters; and those without bank accounts have tended to switch less, although the numbers who *are* switching within these groups have been rising (MORI, January 2001).

The regulator has been working to ensure that all households can get the best deal from the competitive energy market. Among other things, it regularly publishes price comparison sheets to improve quality of information available to consumers, along with factsheets about switching. It has also agreed to work with Help the Aged and energywatch to ensure that the benefits of switching supplier are more widely understood by groups who would benefit significantly, including older people and customers on low incomes (Ofgem, 2001).

Initiatives of this kind are undoubtedly needed. Figures published by the Gas Consumers Council indicate that largest category of complaints related to 'changing supplier'. Within this category, the most common complaints related to unauthorised transfers from old suppliers; double billing; and poor communication between suppliers (GCC, 2000).

How many households were likely to use information about getting the best deal from the competitive energy market?

The overall picture regarding information and advice about getting the best out of the competitive energy market was very similar to the one for money advice. Around four in ten (38 per cent) households were keen to access this type of advice, but most were only fairly, rather than very, interested (Table 3.1).

Switching energy suppliers was raised spontaneously during the discussions at all of the focus groups, and people talked of companies being very active in all three localities in their attempts to get people to switch from their existing supplier. Several people talked about persistent company representatives, and there was also a very strong view that representatives were only interested in maximising their commission, and were not interested in what was best for the consumer. People were wary of switching and not at all convinced that any potential savings were worth the hassle. Previous qualitative research has also found that the monthly, quarterly and annual figures used by suppliers have little meaning for people who budget weekly, and that people were concerned about the possibility of having to change their payment method (MORI, March 2001).

Given these views and experiences, it is hardly surprising that there was support in five of the six groups for an independent advice service providing information about the best deal for consumers. Even so, people questioned whether this type of information could ever be independent, as it would have to be provided by companies themselves.

What types of households would be most likely to use advice services?

On the whole, fairly similar types of households said they were likely to use each of the three advice services as were keen to switch their payment method, namely:

- People in their 20s and 30s;
- One and two parent families with dependent children;
- One earner households;
- Householders buying their home on a mortgage, and private tenants.

However, unlike the bill-payment switchers, non-pensioner households with no-one in paid employment were also over-represented among those likely to use all three types of advice service. Most likely this is because advice services offer potential cash savings but, unlike switching payment method, they do not carry a risk of losing financial control. By incorporating advice about energy saving, money advice or choosing a supplier the level of interest in a new bill-payment facility among non-pensioner households with no earners could well be enhanced (Table 3.2).

Households interested in accessing money advice differed slightly in two ways from those likely to use energy advice and information about the competitive market. First, social tenants, who include more of the long-term poor, were over-represented among households that said they were likely to use a money advice service. Indeed they were just as interested in money advice as mortgage holders and private tenants (Table 3.2).

Table 3.2 Likelihood of using advice services by personal and household characteristics

Cell percentages

	Bill-payment	Energy advice	Money advice	Supplier information	Weighted base
All households	24	24	12	13	1,058
Age of respondent					
Under 30	32	32	19	20	159
30s	33	29	18	17	206
40s	30	26	10	11	175
50s	18	26	15	13	159
60s	19	18	9	11	146
70 or over	12	14	6	7	214
Household type					
Single, pensioner	14	15	7	8	174
Single, non-pensioner	23	22	10	11	161
Couple, no dependent children	21	21	11	13	206
Lone parent	32	33	19	20	265
Couple, with dependent children	28	31	18	16	144
Other	27	21	10	10	104
No. earners in household					
None (pensioner household)	12	14	6	8	274
None (non-pensioner household)	25	30	16	16	235
One	31	27	16	16	306
Two or more	27	26	12	13	239
Tenure					
Owens home outright	16	20	5	-	207
Owens home with mortgage	31	31	15	-	245
LA/HA tenant	22	22	14	-	503
Private tenant	32	25	15	-	102

Base: all households that pay for gas and/or electricity in cash

Second, there was a statistically significant correlation between the method of paying fuel bills and the likelihood of using a money advice that was not apparent for the other two types of advice service. Consequently, households with prepayment meters and, to a lesser extent, those paying through a budget scheme were more likely to use a money advice than households that saved up cash to pay their fuel bills quarterly. These are the households that were most likely to be in financial difficulty.

How much interest is there in an integrated Factor Four service?

Using the Omnibus survey we have been able to assess the level of interest in an integrated service encompassing advice as well as bill-payment. Using a cautious estimate (i.e. only including those households that said they were definitely interested), we can see that about a quarter of households paying in cash (25 per cent) were very likely to use a Factor Four service. On average, those very likely to use a Factor Four service would use two of the four services on offer (Table 3.3).

Half of them would only be interested in bill-payment but the other half (13 per cent of cash-paying households) were interested in bill-payment plus advice. However, only a very small number (4 per cent) would be very likely to use a full 'Four Factor' service combining a new method of bill payment with all three types of advice.

If, instead, we use a less conservative definition (i.e. households that were either very or fairly likely to use the services), nearly twice as many households (44 per cent) would be likely to use a Factor Four service (Table 3.3). In fact, three quarters of them would use advice services as well as the bill-payment facility and, on average, they would use just under three of the four services on offer. On this less conservative definition nearly one in five (18 per cent) of current cash payers would be fairly likely to use all four services.

Table 3.3 Level of interest in a Factor Four approach to bill-payment

Column percentages

	Households that pay for gas and/or electricity in cash		As a proportion of all households	
	Narrow definition	Broad definition	Narrow definition	Broad definition
Four factors*	4	18	1	6
Three factors*	4	9	1	3
Two factors*	5	6	2	2
Bill-payment only	12	11	4	4
Other factor but not bill-payment	17	26	6	8
None	59	29	19	9
Total interested in a Factor Four approach	25%	44%	8%	15%
<i>Average number of factors (all)</i>	<i>0.15</i>	<i>1.25</i>	<i>n/a</i>	<i>n/a</i>
<i>Average (all interested in Factor 4)</i>	<i>1.98</i>	<i>2.76</i>	<i>n/a</i>	<i>n/a</i>
<i>Weighted base</i>	<i>1,058</i>	<i>1,058</i>	<i>3,274</i>	<i>3,274</i>

* including bill-payment service

There was also a fair degree of interest in using just one of the advice services, without switching to a new bill payment facility. Between 17 and 26 per cent of households using

cash to pay for some or all of their fuel were keen to use this service, typically to access energy efficiency advice.

To give some idea of the overall level of interest among *all* electricity and gas customers, a Factor Four service would appeal to between eight and 15 per cent of households in Britain. Of these, around four per cent would only be likely to use a bill-payment service, while between four and 11 per cent would be attracted to an integrated service offering both bill-payment and advice. Between one and six per cent would be likely to use a full 'Four Factor' service combining a new method of bill payment with all three types of advice (Table 3.3).

From this, we can give a rough estimate of the likely demand for a Factor Four service among Britain's 24 million households. In total, between 2 and 3.6 million households would be interested in a Factor Four approach. Of these, around one million would be attracted only by a cheaper bill-payment service; while between one million and 2.6 million would be interested in an integrated bill-payment and advice service. The number of households likely to be interested in a full Factor Four service, combining bill-payment and all three types of advice, would range from 250,000 to 1.4 million depending on the definition used.

What types of households would be most likely to use a Factor Four service?

The types of household that were most interested in a Factor Four approach, as measured by their overall likelihood of use plus the average number of factors they would use, were a fairly familiar group (Table 3.4). They included households that were:

- Headed by people aged under 40;
- Families with children, and especially lone parents;
- Single earner households;
- Buying their home on a mortgage, and private tenants.

The types of household that were least likely to use the service were:

- Headed by people aged over 70;
- Pensioners living alone;
- Outright owners of their home.

Non-pensioner households with no-one in work and social tenants were interesting for the fact that they had relatively low levels of overall interest in the Factor Four approach, but those who *were* interested tended to say they might use a relatively high number of factors (Table 3.4).

There were also some interesting regional differences (Table 3.4). Without doubt, the greatest interest in a Factor Four approach existed among households in Scotland. A high proportion of households in the South West of England were interested in the idea, but they tended to say that they would use slightly fewer factors overall. In contrast, interest was quite low in the Midlands and East Anglia and in Wales but the households in these regions who *were* interested said that they might use a relatively high number of factors.

Table 3.4 Levels of interest in a Factor Four approach to bill-payment by personal and household characteristics

Cell percentages

	Narrow definition		Broad definition		<i>Weighted base</i>
	Percentage very likely to use	<i>Ave. no. of factors¹</i>	Percentage likely to use	<i>Ave. no. of factors¹</i>	
<i>Age of respondent</i>					
Under 30	32	2.12	54	3.16	159
30s	33	1.93	54	2.96	206
40s	30	1.82	53	2.76	175
50s	18	2.29	41	2.82	159
60s	18	1.77	40	2.34	146
70 or over	12	2.05	32	2.25	214
<i>Household type</i>					
Single, pensioner	14	2.08	32	2.33	174
Single, non-pensioner	24	1.70	49	2.65	161
Couple, no dependent children	21	1.85	45	2.58	206
Lone parent	32	2.21	54	3.17	265
Couple, with dependent children	28	2.17	47	2.93	144
Other	26	1.74	44	2.76	104
<i>No. earners in household</i>					
None (pensioner household)	12	1.87	38	2.11	274
None (non-pensioner household)	25	2.14	44	3.10	235
One	31	1.96	54	2.89	306
Two or more	27	1.92	49	2.77	239
<i>Tenure</i>					
Owens home outright	16	1.97	38	2.46	207
Owens home with mortgage	31	1.93	55	2.82	245
LA/HA tenant	22	2.04	42	2.79	503
Private tenant	32	1.93	50	2.98	102
<i>Region</i>					
North	22	1.85	47	2.59	308
Midlands and East Anglia	18	2.07	37	2.84	267
London	27	1.91	49	2.73	92
South East	25	1.67	47	2.88	106
South West	31	2.08	51	2.66	71
Wales	18	2.08	39	2.93	69
Scotland	34	2.22	53	2.90	143

Base: all households that pay for gas and/or electricity in cash

¹ Among those interested in Factor Four

Overall the variations between households that paid their fuel bills in different ways were rather slight (Table 3.5). On the whole, households with prepayment meters were interested in the largest number of factors. There was no statistically significant difference between the number of factors that households were interested in and their level of integration into the banking system. The people who seemed to have the highest level of interest in the Factor Four approach lived in households where one fuel bill was paid in cash, the other using banking facilities.

There were some interesting links between people's views about paying in cash and their likelihood of using an integrated Factor Four service. The highest level of use, not surprisingly, will come from those who are dissatisfied with the way that they currently pay

their bills. This is clearest on the broader definition (i.e. all those who are very or fairly likely to use services), where seven in ten people who were not entirely satisfied with their current methods of paying in cash said that they would be likely to use a Factor Four service; on average, they would each use just under three of the factors (Table 3.5).

Table 3.5 Levels of interest in a Factor Four approach to bill-payment by method of bill-payment and views of paying in cash

Cell percentages

	Narrow definition		Broad definition		<i>Weighted base</i>
	Percentage very likely to use	Ave. no. of factors¹	Percentage likely to use	Ave. no. of factors¹	
<i>How pays for gas and electricity</i>					
Cash only	22	2.02	43	2.78	938
Cash and bank	40	1.82	62	2.66	120
<i>How pays for gas</i>					
Saves up cash	25	1.98	45	2.76	364
Pre-payment meter	26	2.13	44	3.02	217
Budget scheme	21	2.06	39	2.72	187
<i>How pays for electricity</i>					
Saves up cash	22	2.07	45	2.65	449
Pre-payment meter	23	2.04	43	2.86	404
Budget scheme	23	1.65	43	2.82	161
<i>How satisfied with current method</i>					
Satisfied	22	2.04	43	2.77	965
Mixed views/dissatisfied	49	1.71	71	2.72	94
<i>Paying in cash gives control</i>					
Agrees strongly	22	2.15	42	2.81	609
Agrees	27	1.82	53	2.75	309
Don't know/disagrees	26	1.69	46	2.56	134
<i>Paying in cash is convenient</i>					
Agrees strongly	20	2.31	37	2.75	271
Agrees	22	1.94	45	2.80	513
Don't know	30	1.74	49	2.57	160
Disagrees/ disagrees strongly	34	1.95	62	2.85	106

Base: all households that pay for gas and/or electricity in cash

¹ Among those interested in Factor Four

There was also a fairly strong correlation between possible use of a Factor Four service and finding current methods of payment inconvenient. So, six in ten of those who did *not* find their current cash payment method convenient said they would be fairly likely to use a Factor Four service and, on average, they too would use about three of the four services on offer.

Likewise, there was an association between the level of agreement that cash payment gives financial control and possible use of a Factor Four service. In this case, people who were not so concerned about control showed the least interest in a Factor Four service.

Interestingly, though, there was no statistically significant link between the likelihood of using a Factor Four service and people's level of concern about the cost of paying in cash. Nor was there a link with their fears about the risk of disconnection.

Putting this together, the people who are the most likely recruits to a new Factor Four service will be attracted to using a new service as long as it is convenient and provides them with a means of keeping control over their finances.

In conclusion

Overall, households paying for their gas and/or electricity in cash were very satisfied with their payment methods. For them, financial control and convenience considerably outweighed the cash savings available to direct debit customers. In addition, they were able to make small, regular cash payments that were much more appropriate for their short-term budgeting cycles than monthly or quarterly instalments.

Designing and developing an integrated bill-payment and advice service that will attract low-income, fuel-poor consumers therefore presents a considerable challenge. Not only will the service have to offer positive advantages over their existing payment methods, it will also have to match the financial control and convenience that they value in their current methods.

Having said that, there was clearly an appetite for a Factor Four approach among the people who took part in the research. The findings from the Omnibus survey indicate that it will be easiest to attract the small number of dissatisfied householders, particularly those who find their current method of paying in cash inconvenient.

In addition, a Factor Four service will appeal to some groups more than others. Young families with children, and especially lone parents, were attracted to the range of services offered. This was particularly the case among one earner households, although access to a money advice service would also attract those with no earners. In contrast, there was least interest in a Factor Four approach among pensioners, and among single pensioners above all. Alternative services to tackle fuel poverty are clearly required for these people, who constitute the largest proportion of fuel-poor households.

Appendix 1

Fuel expenditure by personal, household and economic characteristics

	Amount spent per week	Proportion of total expenditure
Age		
Under 30	£8.90	3%
30-49	£12.10	3%
50-64	£12.60	3%
65-74	£11.10	4%
75 or over	£9.20	6%
Household type		
Single pensioner mainly dependent on state pension	£7.90	8%
Single pensioner – others	£9.00	5%
Pensioner couple mainly dependent on state pension	£10.40	6%
Pensioner couple – others	£11.80	4%
Single non-pensioner	£7.90	3%
Couple no children	£12.20	3%
Lone parent, one child	£10.70	5%
Lone parent two or more children	£12.50	5%
Couple one child	£12.90	3%
Couple two children	£13.80	3%
Couple three or more children	£14.30	3%
Housing tenure		
Owns home outright	£11.70	4%
Owns home with a mortgage	£12.60	3%
LA/HA tenant	£9.60	5%
Private tenant	£8.90	3%
Number of earners		
None	£10.00	5%
One	£10.80	3%
Two	£12.70	3%
Three	£14.60	2%
Four or more	£15.30	2%
Disposable household income decile		
Lowest 10%	£7.80	6%
Second decile	£9.70	7%
Third decile	£9.60	5%
Fourth decile	£10.10	4%
Fifth decile	£11.00	4%
Sixth decile	£11.10	3%
Seventh decile	£12.30	3%
Eighth decile	£12.50	3%
Ninth decile	£13.50	2%
Top decile	£15.90	2%
Economic activity		
FT employment	£11.80	2%
PT employment	£11.20	3%
Self-employed	£13.60	3%
ILO unemployed	£9.70	5%
Retired	£10.00	5%
Other economically inactive	£11.60	4%
All households	£11.30	3%

Source: The Family Expenditure Survey, 1999/2000

