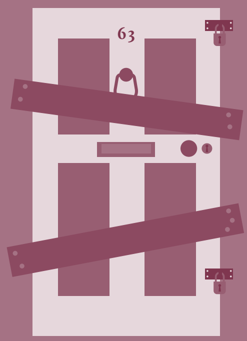
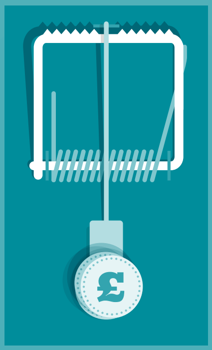
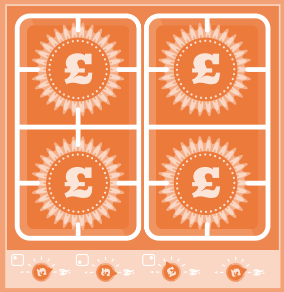




Consumer challenges 2015



Anne Pardoe
James Plunkett

This report draws on a wide range of data sources that cover different geographies within the UK. Unless otherwise specified, data from Citizens Advice Bureaux cover England and Wales while data from the consumer service cover England, Scotland and Wales.

It is important to be aware that any overall figures that are quoted can hide big variations between the countries and regions of Britain, particularly where policy-making is devolved, for example in the case of housing.

Contents

Executive summary

In the past six years there has been a prominent debate in Britain about a living standards crisis. Now, with a recovery having taken hold, this debate has broadened from a focus on falling incomes to a wider conversation about whether the proceeds of growth are being fairly shared.

Scrutiny of trends in living standards has proven vital in difficult economic times. But throughout these debates, attention has focused mostly on the income side of the picture: how falling real wages and cuts to working-age welfare have combined to reduce the amount of money people have available to spend. This focus has many strengths, but one weakness is that it underplays the spending side of the equation. What matters isn't just how much money people have, but the pressures they face in spending that money. This goes beyond incomes, even adjusted for inflation, into questions of market design. For example, are debt contracts good value, or does interest explode unexpectedly, stretching budgets even thinner? Does advertising inform or mislead, causing money to be wasted? Do contracts hook people into services they'd rather escape, adding unnecessary pressure?

At Citizens Advice we work at the front-line of consumer detriment and we know that too often consumer markets make life harder than it needs to be. More than 1.4 million people turn to our bureaux network each year for advice after experiencing a problem related to consumer goods, services or credit.[i] In addition, our consumer service receives 1.2 million calls a year—over 3,000 a day.[ii] The combined losses consumers face run into billions of pounds – at least £4 billion on a reasonable estimate – a tragic and needless waste when times

i Based on the last four quarters. This figure includes consumer debt problems.

ii These calls relate to 626,000 separate enquiries.

are tough, while some individuals suffer life-changing losses of thousands of pounds.[iii] This is not to mention the time spent resolving consumer problems. People spend a total of 184,000 hours a year on our consumer helpline alone, equivalent to over 21 years.[iv]

From the people we advise we get a full and live picture of the problems consumers are facing. This report uses this data, as well as new analysis of official data, to take stock of where consumers stand in 2015. We want to understand if a consumer crisis can be said to stand alongside the much-discussed crisis of living standards and, if so, the nature of that crisis. The report does not try to give a comprehensive account of the problems consumers face. Instead, it surveys the four key consumer markets of debt, housing, energy and consumer goods, and focuses in on areas of consumer detriment that are prevalent for our clients or where a particular challenge presents itself in the coming year. The report does not present policy solutions, but draws some broad lessons for the approach policy makers should take. The trends outlined are described at a headline geographical level, and would often vary if disaggregated into the different countries and regions of Britain.

The overall picture that emerges from this report is one of consumers under intense pressure – and of this pressure leading too often, because of weak or woefully outdated protections, to people's income being wasted. Pressure on consumers is not only high, but also uneven, and we need to understand its shape as well as its scale. Fuel bills have rocketed while communications have become cheaper, creating a different context in markets from energy to mobile phones. The burden of debt has shifted away from the state onto households, and again this falls unevenly, with different households turning to different forms of debt. Meanwhile, our housing market is transforming, benefiting some but pushing many into substandard private rental properties.

iii Department for Business, Innovation and Skills (BIS) *Consumer detriment survey*, (2014)

iv Citizens Advice analysis of calls to the Citizens Advice consumer helpline

Across key consumer markets we see a diverse and serious set of problems:

› In the case of household debt, forecasts have worsened strikingly in the last year; between March and December 2014 alone, the OBR upped its forecast for household debt in 2019 by £174 billion to £2.43 trillion.[v] Beneath these headlines, we see the character of debt changing. Problems with mainstream credit are declining while rent and council tax arrears and high cost credit are on the rise. High cost credit is the sharp end of household debt and in 2014 we saw an ill-governed payday loan industry grow rapidly, wasting millions in interest repayments before action was taken. Our work helped lead to tougher regulation but, as 2015 begins, we already see new problems. Logbook loans, a Victorian debt instrument in which money is borrowed against a possession, are causing severe detriment to borrowers. Nearly 53,000 were taken out last year, up 44 per cent on 2011.[vi] Debt issues are proving particularly problematic for some groups; among our clients, average debt is highest among the self-employed while young people are far more likely to use multiple channels of high cost credit, often unnecessarily spending on interest money they can ill-afford to lose. In 2015 we will be leading a major study of household debt and assets, exploring household's debt positions and routes back into solvency.

› Few UK consumer markets have changed faster than housing in the last 10 years. In the last decade the number of people living in the private rental sector has doubled. Young families in particular are now more likely to rent as the average age of buying a first home has surpassed the average age of starting a family. Our data shows the extent to which a fragmented market, covered by a

v Office for Budget Responsibility (OBR) *Economic and Fiscal Outlook* (December 2014)

vi Full year figure estimated from 11 months of data patchwork of often outdated regulation, is failing to meet today's demands. Problems with private renting in the third quarter of 2014/15 are up 6 per cent on the same quarter in 2013/14.[vii] More than 300 problems with private rental accommodation are now brought to our advisers every day. In England in particular, many report having been evicted by their landlord after requesting a repair, an act of revenge that remains legal under current law. In 2015 we will continue our ongoing research into the causes and consequences of failures in our private rental market.

› Within consumer goods we see a diverse range of problems. Some are long-standing: second hand cars and building repairs, both fragmented markets, make-up the top two problems we see. Yet our data also shows how consumer protections are struggling to keep up with our fast-changing economy. Telecoms is now the fourth biggest category of consumer problem we see, with 23,000 people coming to us every year for advice about an issue. Problems with mobile phones are prominent, with people reporting unexpectedly high monthly bills, inflexible contracts, mis-sold products and confusion about who is responsible when a phone breaks, with losses sometimes running into hundreds or even thousands of pounds. Our research also emphasises the scale of the challenge consumers face as spending moves online, particularly as the peer-to-peer economy grows. Only a minority of people we polled knew that traditional consumer protections do not apply when buying from an individual rather than a business.[viii] Meanwhile, new scams are emerging. To give just one example, in 2014 we saw a sudden quadrupling in the number of people losing money in scams related to slimming pills. In 2015 we will be looking further at how to protect consumers in the new economy.

vii This overall figure covers England and Wales and hides variation between the two countries. For example, private rental sector issues reported to us in Wales alone are down two per cent in the same period.

viii *Consumer rights in online marketplaces*, Citizens Advice (2015 (forthcoming)).

- Finally, energy may be the one consumer market that has broken through into high-level political debate in the last year. The focus has been on overall prices but in our work we also see more specific failures in the market. The policies and practices around pre-pay meters may sound like a detail but the harm they cause is not trivial. Pre-pay customers still pay £80 a year more than those paying by direct debit. Fifteen per cent of prepay customers disconnected themselves in the last year, of whom nearly half (47 per cent) regularly disconnected for at least an hour. Many are squeezed by the fact that energy companies insist on collecting debts throughout winter, rather than just in summer when pressures ease. Now the industry is on the verge of transformation through smart meters. The lesson from prepay meters is that these new technologies do not automatically benefit customers without vigilance from policymakers and regulators.

For a number of reasons, this is a timely moment for policy makers and regulators to rise to meet consumer challenges. The cost to consumers of ballooning debt interest, an inflexible contract or a misleading advert is painful at the best of times, but even more so when budgets are stretched thin. Ironically, tough times are a fertile breeding ground for harmful practices, and a recovery is a chance to ensure they do not take hold. With consumer markets changing faster than ever, there is also the risk that innovation outpaces regulation, policy and practice, leaving consumers exposed.

These are serious challenges but there is also a note of optimism: many of the consumer market failures we outline in this report would not cost money to fix. In a fiscally constrained environment, assertive action on consumer problems becomes an even more important way to help hard pressed households – and one that all parties can get behind.

Box 1: Citizens Advice – the power of our data

Last year, 2 million people turned to their local Citizens Advice for help resolving a problem. 1.2 million people called our consumer service and 21.7 million unique users visited our website. These figures bring home the extent of our work in communities across the country and the demand for our advice, particularly in difficult times. They also represent a uniquely powerful set of data, allowing us to see live and in incomparable detail the challenges people are facing across Britain.

In this report we use our data, alongside analysis of external sources, to look at one area in particular: the challenges facing consumers in 2015. The report focuses on headlines rather than details, sketching out key themes that emerge for the year, many of which will be explored in coming months.

The analysis should be read with two caveats in mind. First, our clients are broadly but not wholly representative of the population, meaning we should be careful when inferring lessons from our clients to the country as a whole. Second, our client numbers reflect both demand for our services and our capacity to meet that demand. This means we should be careful when talking about trends over time.

Subject to these important caveats, our data has a number of strengths:

- The extremely **high volume** of people who use our services means we can carry out unusually granular analysis. We can break down our data into detailed topics, demographics or geographies, often at postcode level, mapping the local impact of policies or the incidence of specific issues. For example, the Institute for Fiscal Studies recently used our data to understand the local impacts of Council Tax Benefit cuts.*

- The **timeliness** of our data means it gives a rare insight into what is happening now. Data from official surveys, while more representative, often lags by months or even years. Our data is updated daily. This means we spot emerging social issues long before they show up elsewhere. For example we made the first super-complaint about Payment Protection Insurance (PPI) and raised the alarm on payday loans and credit brokers, leading to tough action from the FCA.** Likewise, we see the first impacts of welfare reforms or of changes in the housing market and labour market.

* Adam, S. et al, Council Tax Support Schemes in England: What Did Local Authorities Choose, and with What Effects?, Institute for Fiscal Studies (2014)

** In the second quarter of 2014/15, we saw a 257 per cent increase in calls to the Citizens Advice consumer service about credit brokers compared to Q2 2013/14. Callers had lost an average of £89 from undisclosed fees or downright deception.

- Finally, our data is unusually **broad in its scope.** We work on the full range of issues people come to us with rather than being restricted by departmental or thematic boundaries. This means we see links between issues, for example mental health and debt. And it means we sometimes spot entirely new issues before they are defined in law or public debate.

Our data comes from three main sources:

Citizens Advice national statistics

From our 3,300 locations in England and Wales we gave face to face and phone advice to 2 million people last year, advising on 5.5 million issues. We record these issues to three tiers of detail, from a broad category like 'debt' to a specific problem like 'negotiations with a creditor'. We can analyse this data by postcode and often demographics and income. On some issues we have additional data For example, for the 70 per cent of our debt clients with complex issues (around 145,000 a year) we collect financial data to help us give accurate advice.*

In addition to this quantitative data, our advisors submit more detailed descriptive accounts when a client's case is intractable and requires a change in policy, practice or law. Last year we received 50,000 of these 'Bureau Evidence Forms' which describe the nature, cause and impact of the problem and policy changes required. This gives invaluable insight into malfunctioning policies, unfair practices and emerging issues and also shows directly the human impacts of policy failures.

Consumer service statistics

The 1.2 million calls to the Citizens Advice consumer service last year raised 626,000 consumer queries.** This service, and the data we derive from it, covers England, Scotland and Wales. This data is broken down into issues codes that correspond with those used by Trading Standards and is used to inform enforcement action. Much of the analysis in this report is based on this data because of the valuable insights it gives us into failures in consumer goods markets.

* Some areas have additional services, for example money guidance, that record additional data. For example, Citizens Advice in Wales has an additional service offering face to face money advice funded by the Money Advice Service. This has a separate recording system, capturing additional data.

** We deal with more issues than calls because some issues take more than one phone call to address.

Adviceguide web analytics

Our website, Adviceguide, provides extensive self-help information on a wide range of topics and is the official online home of consumer advice. In 2013/14 our website had 21.7 million unique visits to 34.7 million content pages, up 51 per cent on the previous year. Visits to our consumer pages increased by 85 per cent to 9.1 million page views. This data tells about the level of demand for advice on different topics and about the timing of this demand. It does not capture information about demographics or socioeconomic status, although periodically we collect additional information by asking our users to share their views through voluntary surveys.

Chapter 1

The consumer context

Key issues in this chapter:

› incomes and spending

› debt and prices

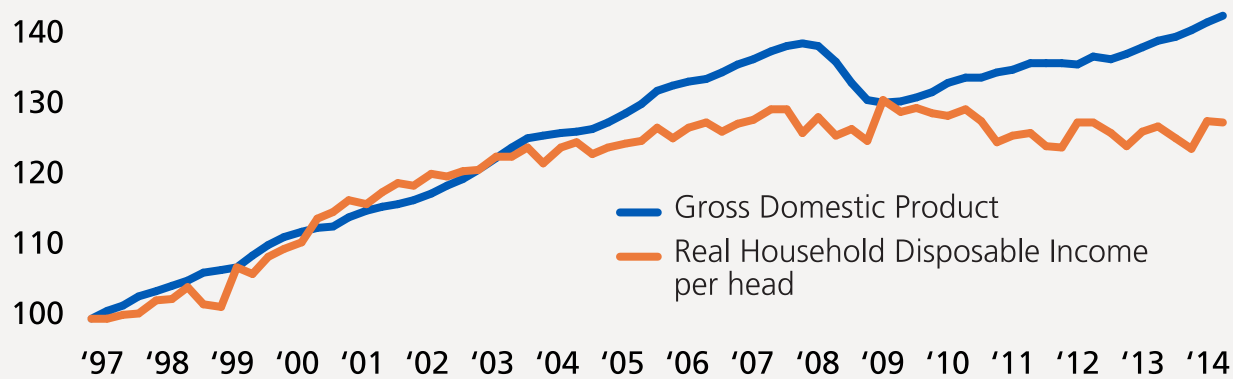
› counting the cost

In the first chapter of the report we set out the context facing consumers at the start of 2015. With the UK having entered a sustained economic recovery, we would expect this to be an easier year for consumers. Indeed, a surprisingly steep drop in inflation is already easing pressure on household budgets, a trend that now looks set to continue for some time.

Yet to understand the consumer environment, it is also important to dig beneath the headline figures to understand not just the scale but the shape of income and spending patterns. Trends in the stock and distribution of household debt and patterns of changing prices, not least the price of housing, complicate any simple story of a 2015 feel good factor.

Figure 1.1 **GDP has rebounded but incomes remain flat**

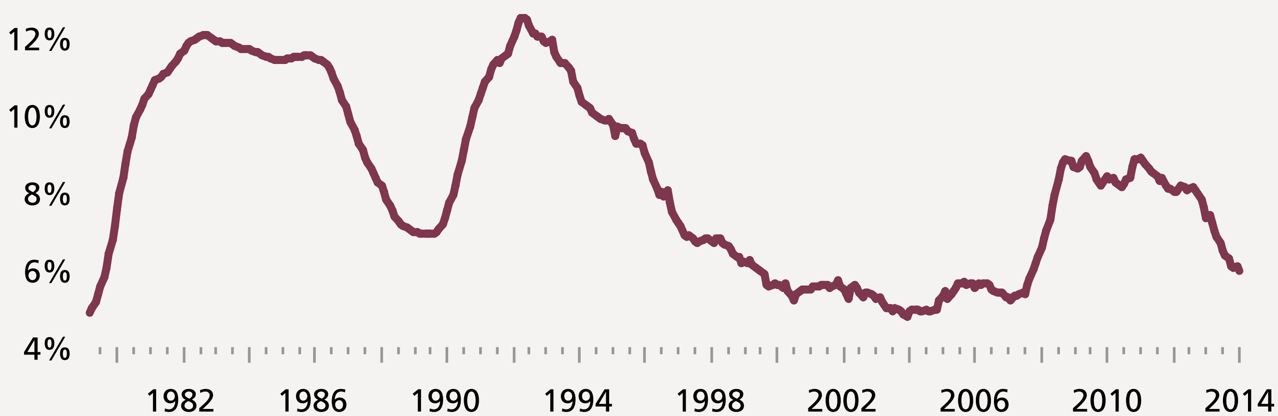
UK GDP vs Real Disposable Household Income per head (index 1997 = 100)



Source: Citizens Advice analysis of ONS *Gross domestic product by category of expenditure* and *Real Disposable Household Income per head* (January 2015)

Figure 1.2 **Unemployment stayed low and has fallen fast**

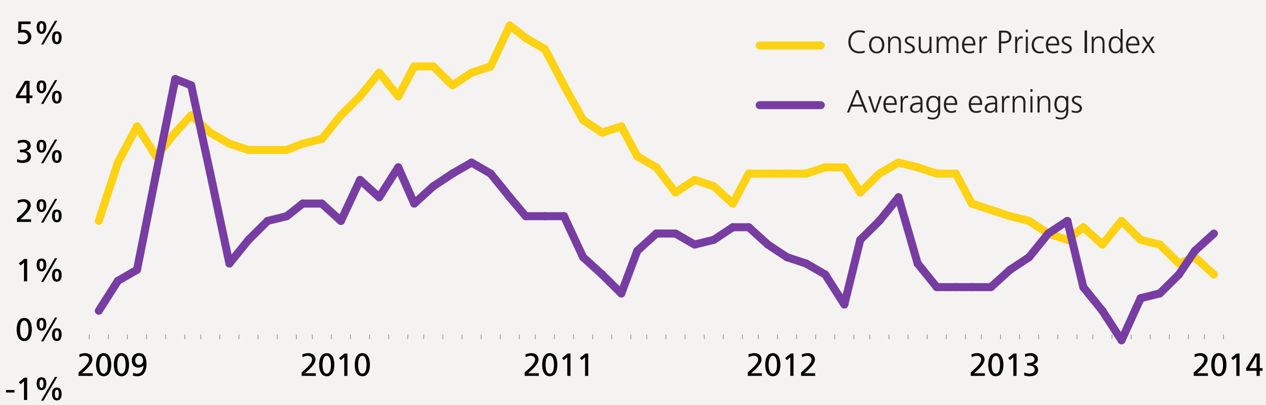
% of work force unemployed



Source: Citizens Advice analysis of ONS *Labour Market Statistics* (January 2015)

Figure 1.3 **For five years prices rose faster than wages**

% change in Consumer Price Index (CPI) vs Average Weekly Earning



Source: Citizens Advice analysis of ONS *Labour Market Statistics* (January 2015)

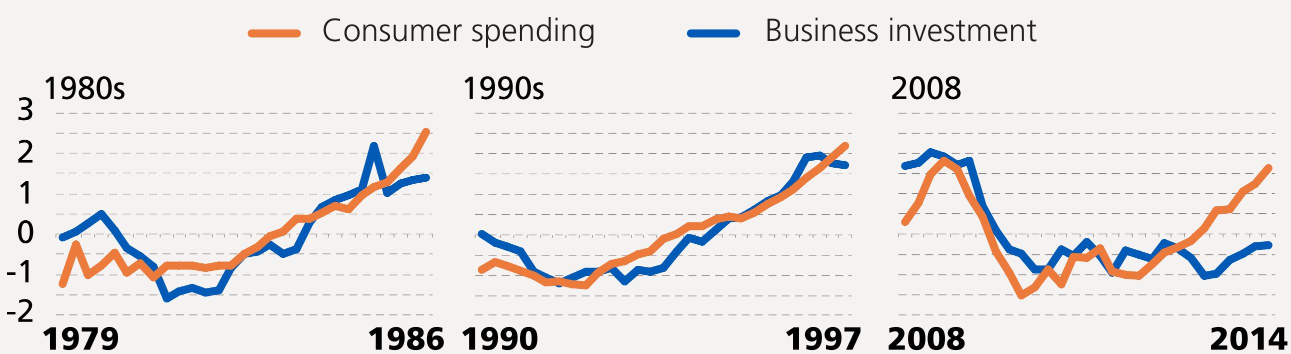
Throughout the last six years Britain has seen a prominent debate about a living standards crisis. This debate has shown in detail how trends in GDP have fed through into a squeeze on household incomes. In simple terms, this story has three chapters: real household income grew weakly in the run up to the crisis, then fell steeply, and is now recovering slowly. The overall extent of this squeeze depends on the measure used, but reasonable estimates suggest it has resulted in six to ten 'lost years' in which income hasn't grown in real terms. One notable backdrop to these lost years has been unusual trends in the jobs market. The UK has seen surprisingly low unemployment and surprisingly bad wage growth. This has spread the pain in the jobs market more broadly across the population than in past crises.

These recent trends in real incomes have been well-documented and are key to understanding how the crisis has played out for consumers. With consumer spending constituting 64 per cent of UK GDP, they are also key to understanding the shape of the recovery.[1] As Figure 1.4 shows, consumer spending has led the way since 2010 as it has in previous recoveries. However, this time it has continued to outstrip a recovery in business investment. More recently, business investment has shown signs of life but remains far below its recovery in previous recessions.

1 Citizens Advice analysis, *Office for National Statistics*

Figure 1.4 **Consumer spending has led the recovery**

Consumer spending vs. business investment through the last three recessions



Source: Citizens Advice analysis of ONS *Gross domestic product by category of expenditure* and *Household final consumption expenditure (goods and services)* (2014)

From a consumer perspective, though, it is the trends that lie beneath these headlines that define what the recovery feels like. Several aspects of the recent growth in consumer spending are particularly important.

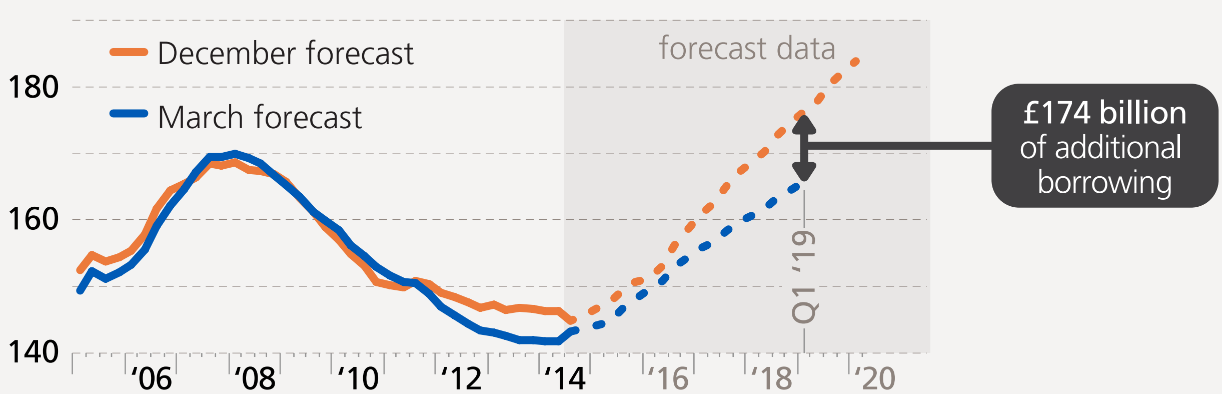
First, spending growth has been supported by rising household debt and this is forecast to continue in coming years. The stock of household debt as a proportion of income is expected to rise again to 184 per cent in 2020, back past its level of 170 per cent in 2008.[2] As we will see in further detail in Chapter 2, the distribution of this debt makes its level even more worrying, with a substantial portion of debt sitting with households that are highly leveraged and/or on low incomes.[3]

The forecast growth in household debt reflects a mix of higher secured lending, partly as a result of rising house prices, and higher unsecured lending as household spending outstrips incomes by more than previously expected. In our work, we see what high and rising unsecured lending means in practice, particularly in a context of relatively constrained mainstream credit. It means that new debt products and lending practices, and sometimes entirely new firms, are coming into being in order to lend to often highly leveraged, and sometimes low income, consumers.

2 Office for Budget Responsibility's (OBR) *Economic and Fiscal Outlook* (December 2014)
3 Bank of England *Quarterly Bulletin* (Q3 2014)

Figure 1.5 **Household debt is rising relative to incomes**

OBR forecasts for household gross debt to income ratio



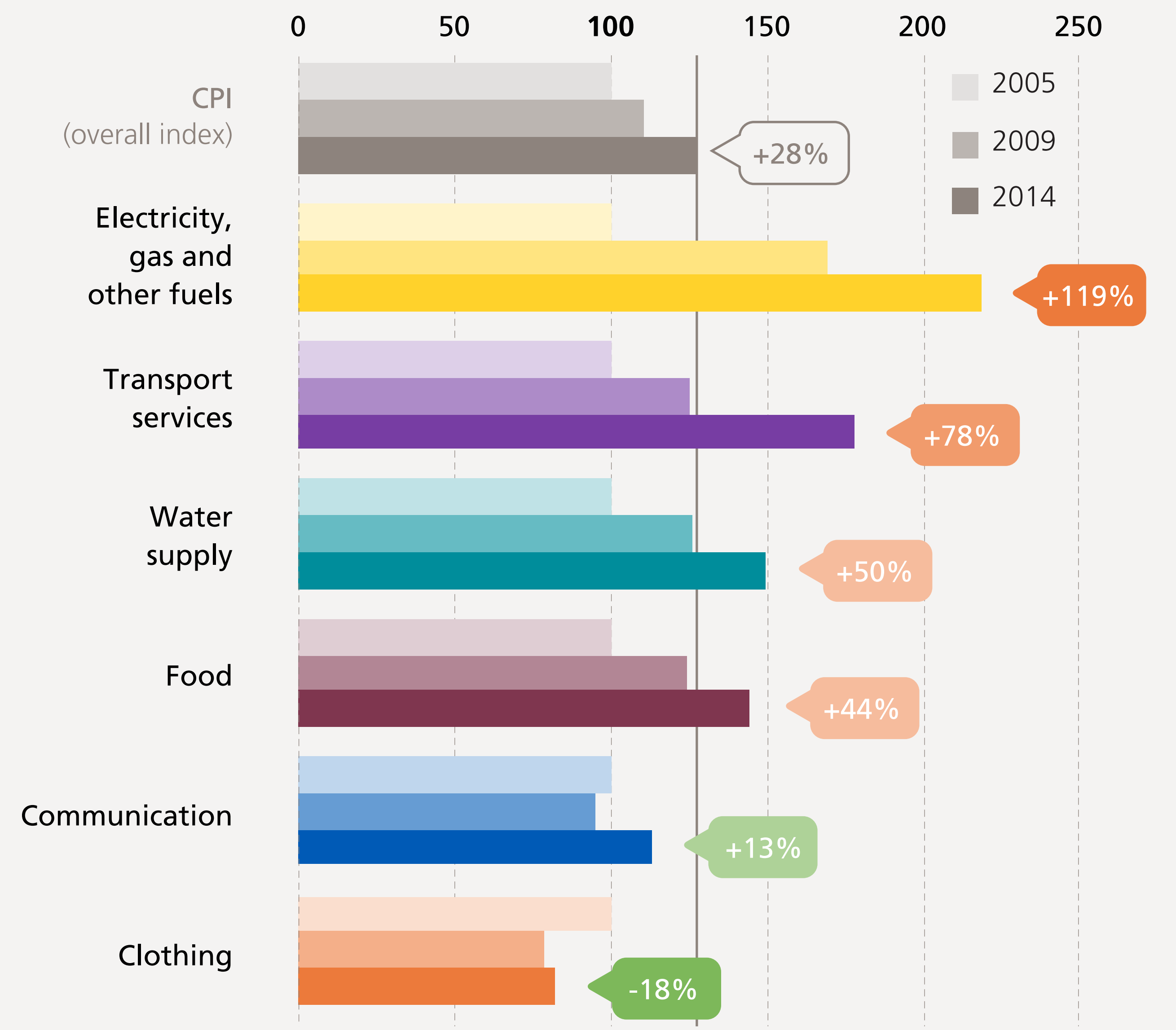
Source: Citizens Advice analysis of data from Office for Budget Responsibility's (OBR) *Economic and Fiscal Outlook* (December 2014)

Second, consumers have been experiencing uneven pressure from the prices of different goods and services. As Figure 1.6 shows, the essential cost of heating and lighting our homes has increased far faster than overall inflation. The price of electricity, gas and other fuels is now more than double what it was in 2005 – an increase of 119 per cent.[4] The cost of other essentials like food, water and transport, including rail fares, have also risen faster than average inflation. Meanwhile, the prices of clothing and communications have fallen in real terms.

4 Citizens Advice analysis of DECC *Annual domestic energy bills* (December 2014)

Figure 1.6 **Price pressures have varied by category**

Growth in price of selected goods compared to CPI (index 2005 = 100)



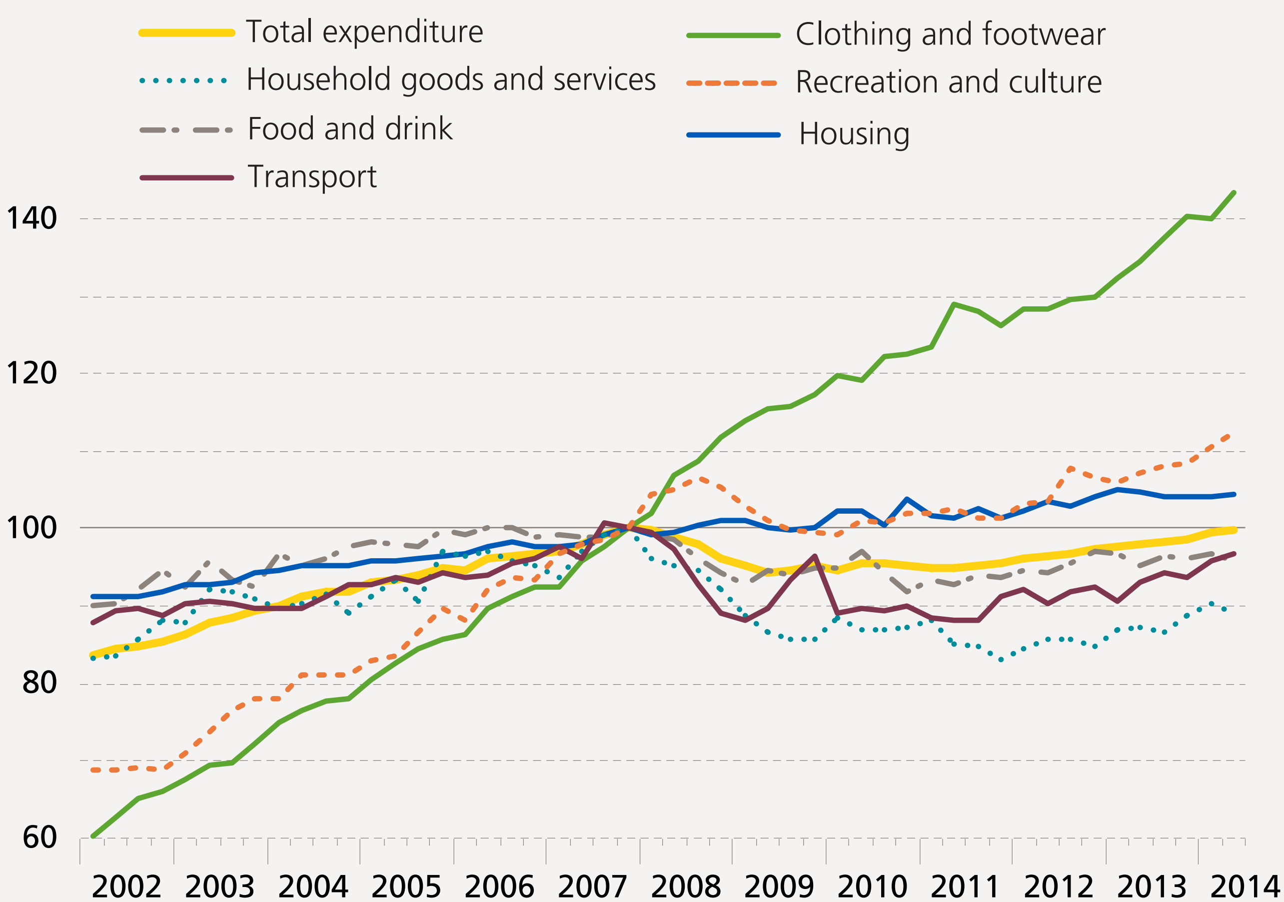
Source: Citizens Advice analysis of ONS *Consumer Price Inflation* (December 2014)

Figure 1.7 shows how consumption habits have responded to these changing prices, showing recent trends in the volume of household spending on key categories by comparison with Q4 2007, the turning point for overall consumer spending. People have continued to buy more clothes while the volume of household goods and services (including energy bills) remains over 10 per cent lower than in 2007.[5] These trends reflect a wide range of factors, from changing tastes to improvements in energy efficiency. But they also reflect the varied range of price pressures consumers have been under.

5 Citizens Advice analysis of ONS *Consumer Price Inflation* (December 2014)

Figure 1.7 **Trends in goods purchased are uneven**

Trends in volume of goods bought by category (index Q4 2007 = 100)



Source: Citizens Advice analysis of ONS *Consumer Trends*

In the context of an overall economic recovery it is important to understand what these trends mean from a consumer's point of view. Some essential monthly bills have seen years of sustained rises, and being a consumer in these markets in 2015 means a grind just to pay the bills. In other areas, notably consumer electronics, prices have been dropping fast as technological development accelerates. In these markets, the feeling is less one of pressure, and more of a race to keep up with rapid product innovation. Overall, this makes not only for a varied consumer experience, but also an unequal one. With lower income households spending proportionately more on essentials like gas and electricity, they have been hit hardest by price pressures over the last ten years.

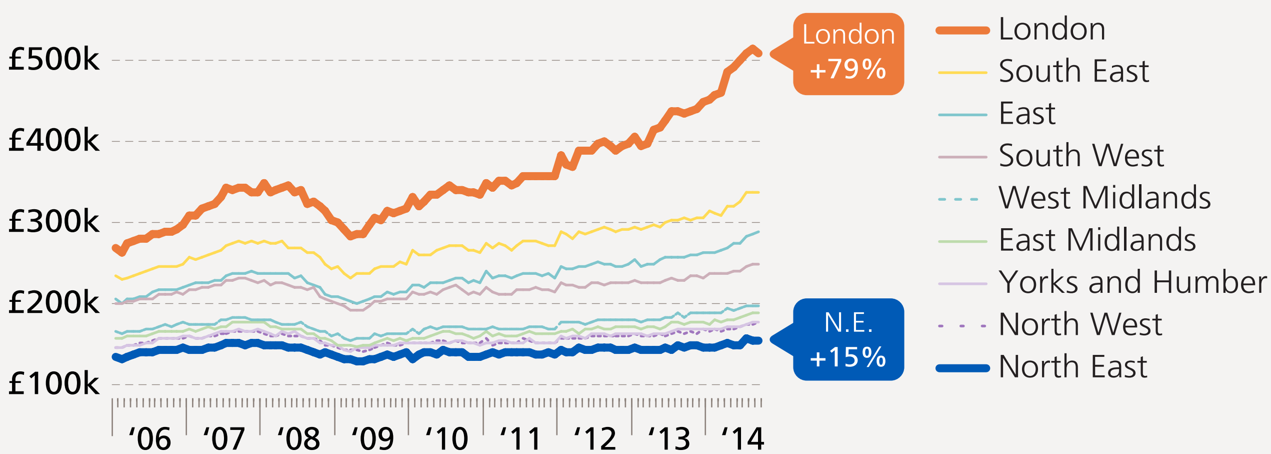
Third, the years since the downturn, and the last two years in particular, have seen a rapid divergence in house prices across the country, fuelled by particularly sharp growth in London.

As Figure 1.8 shows, during the recession house prices fell across the country. Overall average prices began to rise again in late 2009 but this growth was for some time driven almost exclusively by London. In many regions of England and Wales house prices remained static until well into 2013. More recently, there are signs that prices have picked up in regions outside London, and all nine regions have now surpassed pre-crisis levels. Even so, growth is most striking in the capital: the average price of a house in London rose from £284,000 in early 2009 to £508,000 in late 2014.[6] In practice, these trends have pushed home-ownership beyond reach for many, helping to explain rapid growth in the private rental sector.

6 Citizens Advice analysis of ONS *Consumer Price Inflation* (December 2014)

Figure 1.8 **London led the housing recovery**

Average house price by region



Source: Citizens Advice analysis of ONS *Consumer Price Inflation* (December 2014)

How do these trends play out in the problems we see at Citizens Advice?

The discussion above sets the big picture economic context for the consumer issues we see at Citizens Advice. How has this context translated into day to day consumer problems? We provide advice through three main channels: 2 million people turn to our bureaux each year; we receive around 1.2 million calls to our consumer service; and 21.7 million unique users visit our website. Around 11.1 million of these contacts, across all mediums, relate to consumer issues and the data from these interactions, updated each day, shows us live and in incomparable detail how consumers are experiencing these unprecedented economic times.[7] It is important to realise the limits of this data (see page 10), but with certain caveats it can give useful insights into the scale and shape of the challenges affecting consumers.

Today's economic context shows itself most obviously in the problems we see with debt. In our physical advice centres, debt and welfare are the two main categories of issue we see. The mix of these problems has changed in recent years: from 2007/08 to early 2011/12, debt was consistently the top issue people came to us with, before being taken over by benefit and tax credit inquiries.

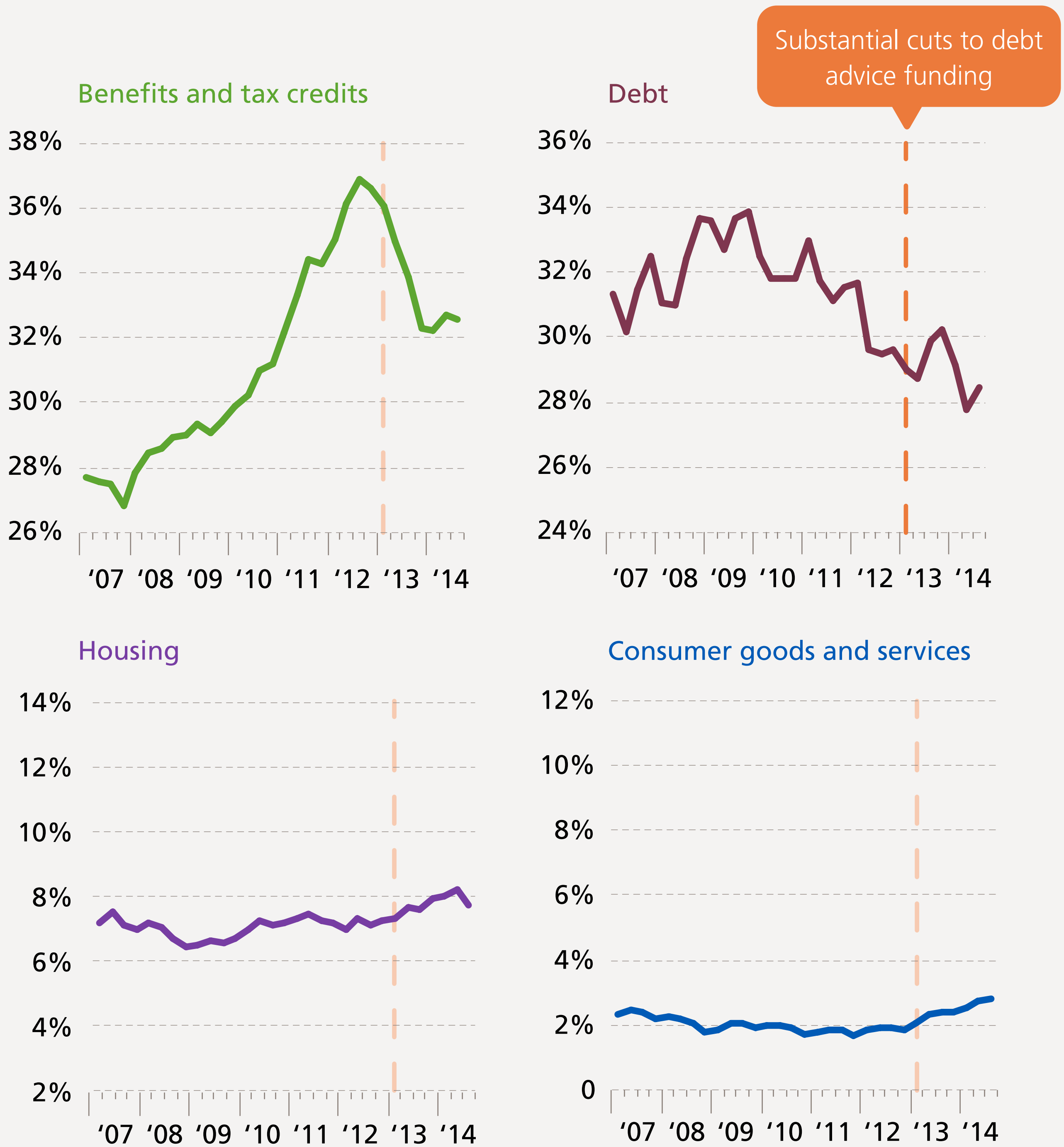
The reduction in specialist debt advice capacity in our advice centres as a result of lost funding means we do not know if this represents a real fall in demand. Indeed we know there remains substantial unmet demand for free debt advice. For this reason, when looking at trends over time, it can be more useful to focus on the changing proportions of issues we see rather than absolute numbers. On the cusp of the crisis in early 2008, for example, debt issues made up 32 per cent of the issues we see compared to 27 per cent of benefits and tax credit issues. This is a marked difference to late 2012 when, after four years of tightened credit, squeezed incomes and falling welfare, debt made up 29 per cent of the issues reported to Citizens Advice while benefits and tax credit issues made up 37 per cent.

As we discuss in more detail in Chapter 2, we are also seeing important changes in the kind of debt problems people are experiencing, as the mainstream credit issues of the early crisis morph into more ominous problems with rent and council tax arrears and other priority debts.

7 Citizens Advice analysis of data from Citizens Advice national advice statistics, Consumer Helpline statistics and Adviceguide

Figure 1.9 **Benefits have overtaken debt as the biggest issue we see**

% of all problems reported in Citizens Advice physical locations



Source: Analysis of Citizens Advice national advice statistics

The scatter plot below explores in more detail how the kinds of problems people came to Citizens Advice with changed in the downturn. The chart looks at the period from 2008 to 2011, the slide down into the trough of the recession. On the horizontal axis is the scale of the problem, showing the proportion of our overall inquiries that each issue made up. On the vertical axis is the growth in that problem, showing the increase we saw in this issue as a proportion of all issues.

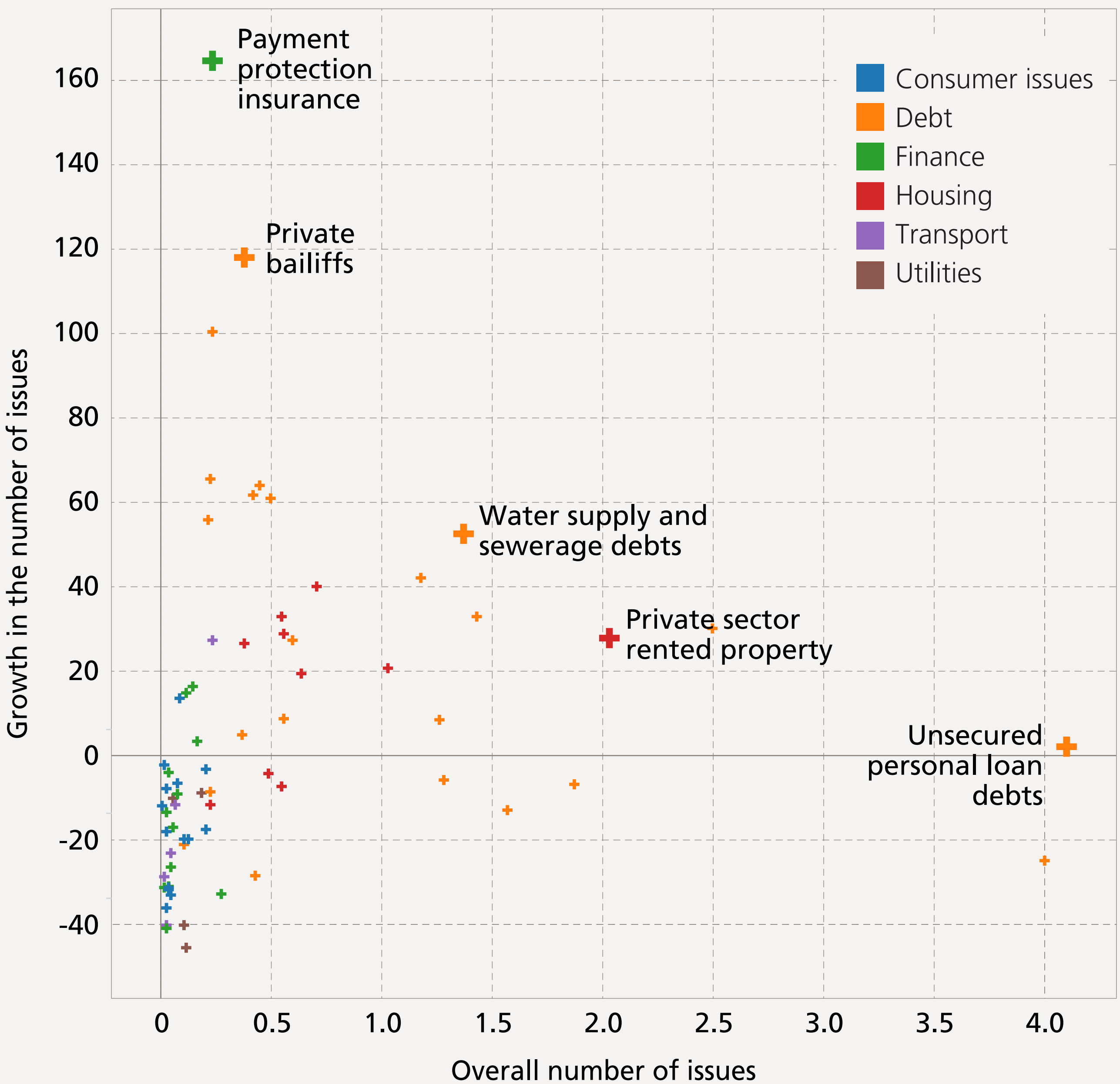
Our data confirms that the standout issue in this period was payment protection insurance (PPI). The number of enquiries we received about PPI increased by 160 per cent in this period.[8] We made the first super-complaint about PPI in 2005 and the data here reflects the scale of the PPI scandal and subsequent compensation rulings rather than the economic context of this time; banks have now put aside as much as £24 billion for customer compensation related to PPI.

Interestingly, we also see a number of trends more reflective of the evolving economic context. As the economy slumped we saw big increases in enquiries relating to social fund debts, private bailiffs, water supply and sewerage debt and private rental sector properties, all echoing wider economic trends. In our more recent data, in the last year, problems with private rental sector properties have again picked up. The recovery is also proving to be characterised by a different mix of problems to the slide down into recession. This is most apparent in the changing mix of debt cases we are seeing (discussed in more detail in Chapter 2) but can also be seen in the fact that specific consumer issues are on the rise again as consumer spending recovers.

8 Citizens Advice national advice statistics

Figure 1.10 **Some social issues grew strongly in the downturn**

Selected issues as a proportion of all issues reported to bureaux and percentage change from the trough of the recession in 2007/08 to the recovery in 2012/13



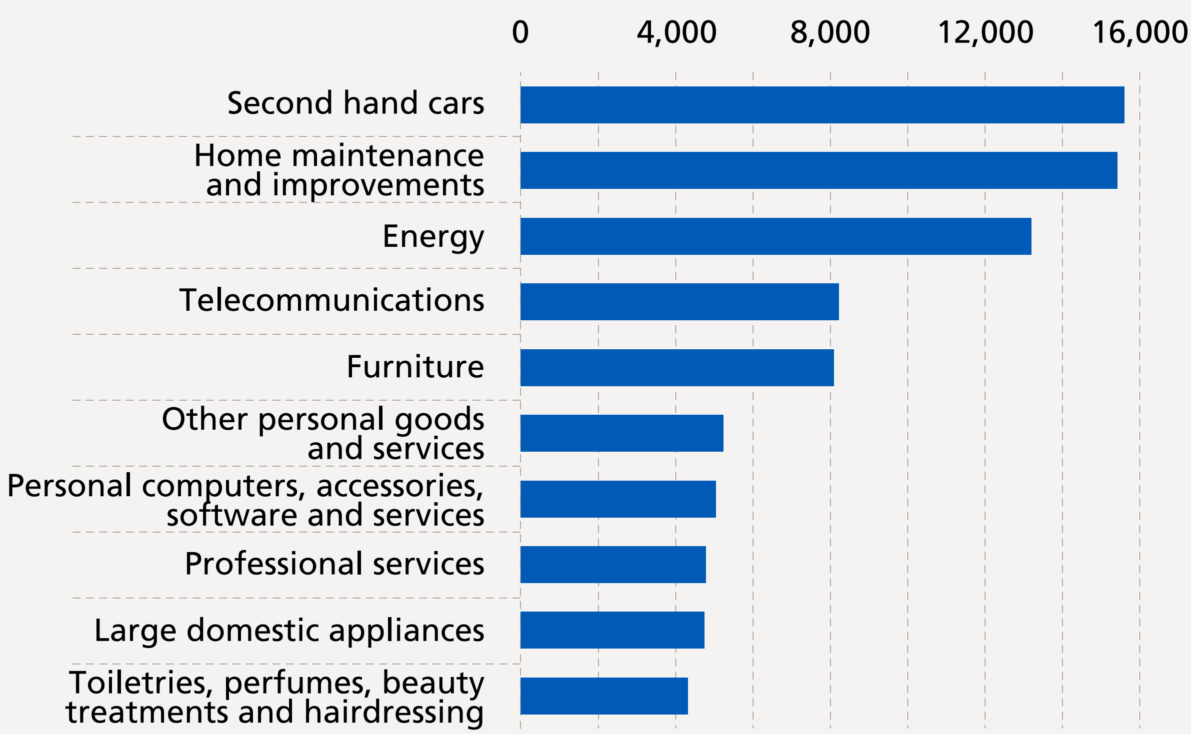
Source: Citizens Advice national advice statistics
Notes: This data tracks changes in issues from the period Q3 2007/08-Q2 08/09 to the period Q3 2011/12-Q2 2012/13.

Consumer goods and services

What problems do we see when it comes to more traditional consumer goods and services? The main source of our data on consumer issues is the Citizens Advice consumer service. We receive 1.2 million calls each year relating to 626,000 enquiries about consumer issues. Figure 1.11 breaks these figures down for different categories of goods and services. It shows the top ten issues by category reported to our consumer service. While the top three issues – second hand cars, home maintenance and energy – are unsurprising, representing consumer markets with well-established failures, it is worrying that telecoms is now the fourth biggest issue we see, having overtaken furniture in Q2 2014-15. This ranks second only to energy among regulated markets, showing how, even with prices stable, such a fast changing market can raise serious concerns for consumer protection.

Figure 1.11 **Problem markets dominate calls to our consumer service**

Number of problems per category reported through Citizens Advice consumer service Q3 2014/15



Source: Citizens Advice consumer service statistics

The overall scale of consumer problems

How should we think about these kinds of consumer issues in the wider context of the debate about living standards, household incomes, and welfare cuts? To give a clearer sense of the scale of the losses that arise from consumer problems, we have analysed a survey of consumer detriment commissioned by the Department of Business, Innovation and Skills (BIS) in early 2014. This survey estimated that consumers across the UK experienced 18.7 million problems with consumer goods and services in the preceding year. In total these 18.7 million problems left consumers £4.15 billion out of pocket.[9] Our analysis looks under the skin of this figure to understand what is driving these losses.

Household fittings and appliances were responsible for the greatest proportion of detriment (39 per cent), followed by professional and financial services (23 per cent) and transport services (19 per cent).[10] While a majority of those taking part in the survey (46 per cent) reported that they had not lost out financially as a result of their problem, the financial impact for some was severe. Our calculations show that those who did lose out financially lost on average £141, a significant sum in today's economic context.[11] Those experiencing a problem with transport or professional and financial services reported losing even more, on average finding themselves out of pocket by £355 and £319 respectively.

9 BIS *Consumer Detriment Survey* (2014)

10 Citizens Advice analysis of data from BIS *Consumer Detriment Survey* (2014)

11 Before this analysis was carried out the top and bottom 0.5 per cent of cases were removed in order to reduce the impact of outliers. For this reason our results differ to those published by BIS.

Box 2: Estimating the scale of consumer detriment

It is important to appreciate the difficulties of estimating the losses people face from consumer issues. The estimates presented here are calculated from responses to the Department for Business, Innovation and Skills (BIS) consumer detriment survey which asked people, among a number of other questions, to describe the two main losses they had faced as consumers in the last year. These details were then used to estimate the total detriment suffered by consumers across the economy.

This methodology has a number of limitations, as would any estimate of consumer detriment. On the one hand, an overall estimate of £4.15 billion consumer losses is based on the average loss people reported from the main two problems they faced in the last year, multiplied by the total number of problems they faced. In practice, this is likely to skew the results upwards, because the two main problems are likely to have caused higher losses than the longer tail of smaller losses.

On the other hand, this estimate does not cover losses of which people are unaware. These 'unknown' losses, as is clear from the exceptional case of PPI, which ran on for many years before being unearthed, can be substantial. Banks have now set aside a total of £24 billion to compensate customers for PPI, a figure so large it is believed to have impacted materially on GDP.* Likewise, a wide range of consumer losses, from misleading advertising to the cost of failing to switch suppliers, are by definition unknown. This suggests that £4 billion is likely to be a substantial underestimate of the overall scale of consumer detriment.

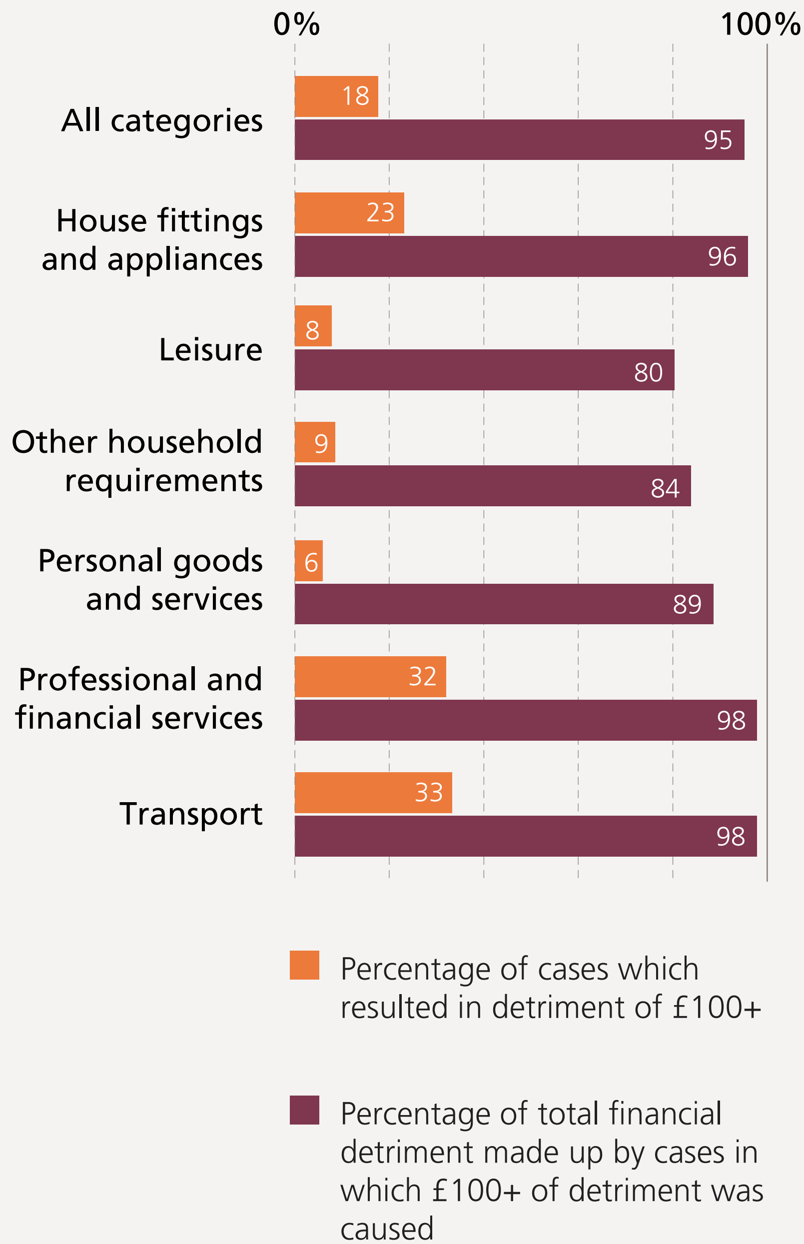
Later this year we will be carrying out more detailed work to quantify the scale of losses people face as a result of consumer problems. We hope this will better situate a debate about household spending and the functioning of consumer markets alongside Britain's wider national debate about living standards, household incomes and welfare cuts.

* National Institute of Economic and Social Research (2012)

A picture also emerges of a small number of issues making up a disproportionate amount of what people lose from consumer problems. Only 18 per cent of problems resulted in consumer detriment in excess of £100 but these cases account for 93 per cent of the total financial detriment experienced. In the case of professional and financial services and transport, cases which involved financial detriment of £100 or more account for 31 and 32 per cent respectively of all of the problems reported in those categories, and 95 per cent of all detriment caused.

Figure 1.12 **Most consumer losses come from a small share of cases**

The proportion of cases which resulted in detriment of £100 or more compared to the proportion of the total financial detriment experienced made up by individual cases in which the consumer lost £100 or more



Source: Citizens Advice analysis of data from the BIS *Consumer Detriment Survey* (2014)

Box 3: Second hand car trouble

Joe visited Citizens Advice after purchasing a faulty car. He had paid £600 in cash for the car, which had broken down three days later. When Joe asked for a refund the trader told him he did not have the money to return, and offered a repair instead. After the car broke down again, Joe consulted a mechanic before again asking the trader for a refund. Joe continued to try to reach the trader with no success, and then turned to Citizens Advice for help. He now fears the trader has changed his operating name.

When things go wrong, people don't just lose money. They also expend valuable time and effort putting things right. New analysis of our own data reveals that people spent a combined total of 184,000 hours or 21 years on the phone to the Citizens Advice consumer helpline in 2013/14, receiving advice on how to resolve the problem they had encountered.[12] With average wait times at just 28 seconds, this figure is driven principally by the large volume of calls we receive and the complexity of many consumer problems.

Survey data suggests that, overall in the last year, people spent an average of 7 hours resolving the most significant consumer problem they encountered, with professional and financial services taking the longest to resolve at 11 hours each and with transport a close second at 9 hours.[13] These were also the two categories in which issues were most likely to take ten or more hours to resolve; 33 per cent and 21 per cent of issues in these categories respectively took up more than 10 hours of time. The time people spent resolving consumer issues also has an economic cost; ten per cent of people took time off work to resolve their consumer issues, with those experiencing transport problems the most likely to do so.

12 Citizens Advice analysis of the Citizens Advice consumer service statistics

13 Citizens Advice analysis of data from BIS *Consumer Detriment Survey* 2014

Conclusion

The way households experience the economic recovery will be shaped by what happens to incomes. But it will also be shaped by how thinly incomes are stretched by failures in consumer markets. From rocketing debt interest to mis-sold products that waste money unnecessarily to the frustration of an unsuitable but inescapable contract, the losses we see run routinely into hundreds of pounds. Ironically, tough times are a fertile breeding ground for the kind of practices that waste people's incomes, as consumers drop their guard in search of a deal.

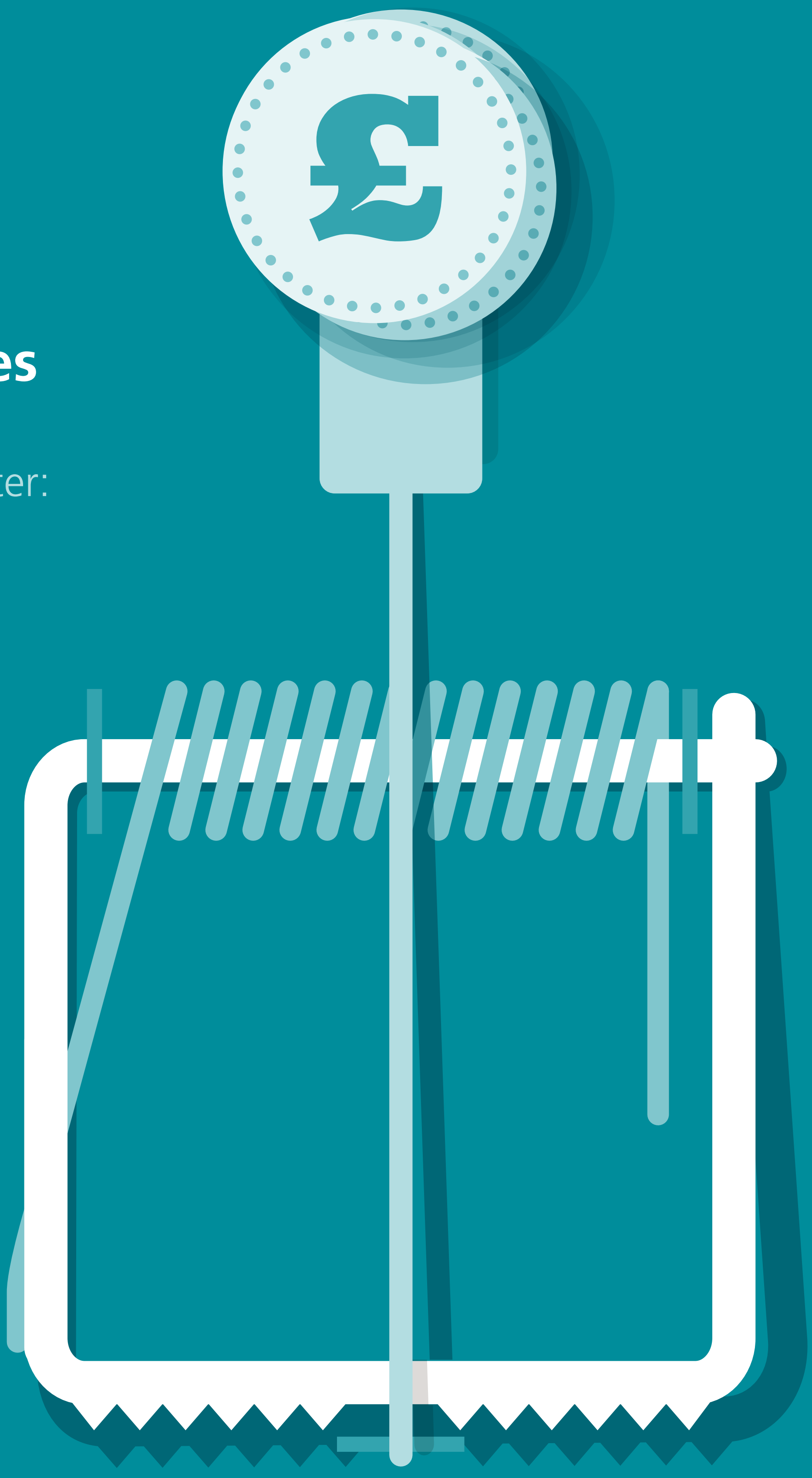
In the following chapters we explore in more detail the particular issues facing consumers in 2015 in a range of markets, looking at debt, housing, consumer goods and energy in turn.

Chapter 2

Debt and financial services

Key issues in this chapter:

- payday loans
- logbook loans
- credit brokers

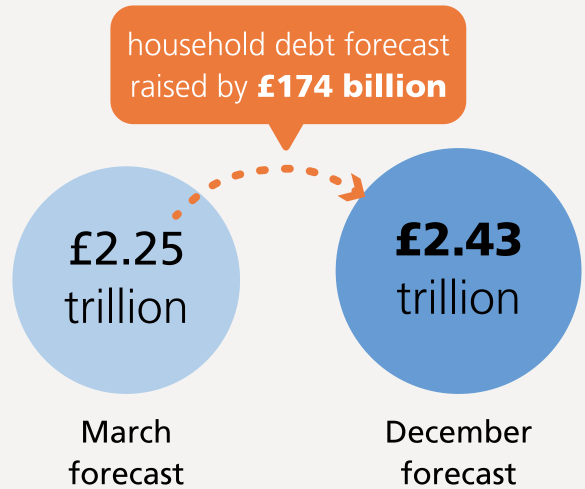


A key feature of the early economic recovery, alongside positive figures for overall growth and consumer spending, has been a striking deterioration in the outlook of household debt. The household income to debt ratio is now forecast to rise to 184 per cent by 2020, far past its pre-crisis peak.[14] In the nine months from March to December 2014, the OBR increased its forecast for the overall stock of household debt in 2019 by £174 billion to £2.43 trillion. This represents an increase in the debt to income ratio in 2019 of 10 percentage points from 166 to 176 per cent. The level of unsecured debt has also been rising since 2014 as the squeeze on household income has continued alongside rising consumer spending.

The OBR identifies several drivers of the worsening outlook for household debt: upgrades to previous estimates for the existing stock of debt, higher than expected house price growth driving more secured lending, and higher unsecured lending as households outspend their incomes more than previously expected. In practice, not least with mainstream credit still relatively constrained, this high, rising and uneven stock of unsecured debt means new companies, products and practices are coming into being to lend money. Recent data on the distribution of debt also suggests that a meaningful share of this lending sits with households who are living on low incomes and/or are already highly leveraged.

Figure 2.1 **Household debt forecasts are rising**

OBR December 2014 projection for household debt by 2019 compared to the same projection in March 2014



Source: Citizens Advice analysis of Office for Budget Responsibility (OBR) *Economic and Fiscal Outlook* (December 2014)

Figure 2.2 **Consumer credit is on the rise**

Consumer credit (excluding student loans)

Source: Citizens Advice analysis of Bank of England *Monetary and Financial Statistics* (October 2014)

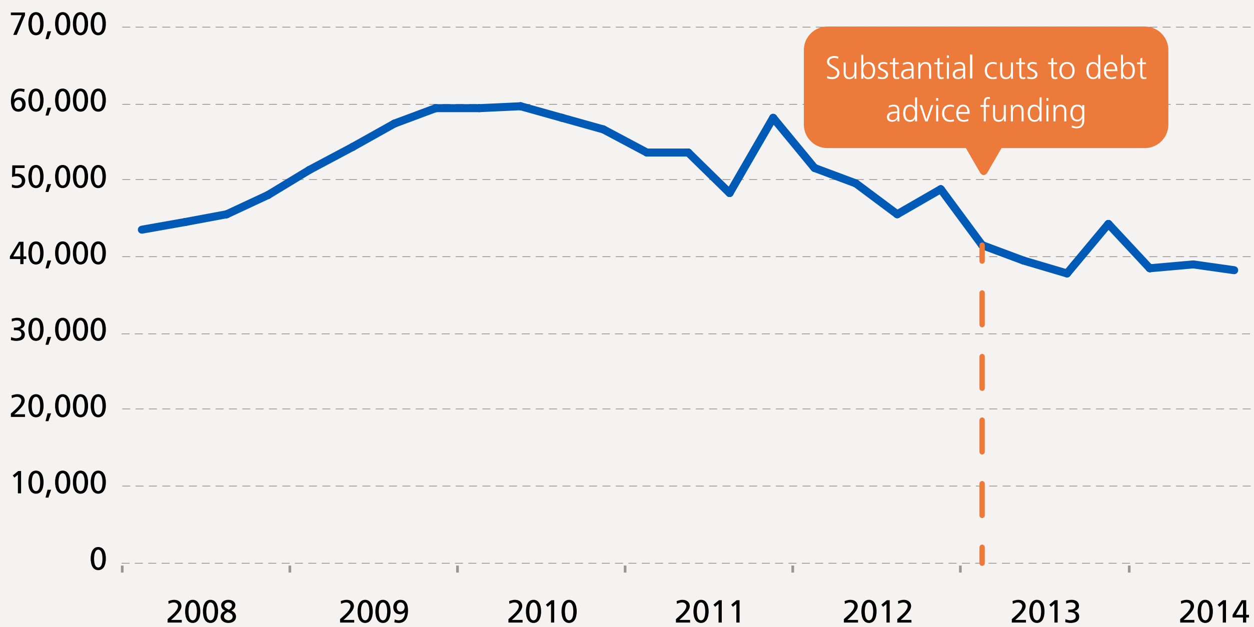
14 Citizens Advice analysis of Office for Budget Responsibility (OBR) *Economic and Fiscal Outlook* (December 2014)

Initially our own data mirrored wider trends in household debt. From 2008/9 the number of debt cases dealt with by Citizens Advice Bureaux followed an upward trend, reaching a peak of 600,000 in 2010/11.[15] This trend was worrying but unsurprising in the context of a spike in unemployment levels, falling real wages and the loose lending practices that led up to the financial crash. Since 2011/12, however,

15 Citizens Advice National Advice Statistics

Figure 2.3 **Debt issues reported to Citizens Advice are falling**

Total number of peoples seeking advice from a Citizens Advice Bureaux in relation to debt



Source: Citizens Advice *National Advice Statistics*

Note: Following reforms to legal aid, which came into effect on the 1st of April 2013, Citizens Advice Bureaux saw a significant drop in the amount of funding received from the Legal Services Commission for specialist advice, including debt advice. Bureaux experienced a drop in income of nearly £15 million as a result of these changes. Approximately 12.5 million of this shortfall has been offset by the Advice Services Transition Fund. However, a majority of this funding cannot be used for frontline client advice and is predominantly used for infrastructure projects. The downward trend in the number of clients receiving advice from bureaux on debt issues can therefore at least in part be explained by this sharp drop in funding rather than a fall in demand.

A growing proportion of our clients come to us for help with priority debts related to fuel, rent and council tax.

this trend has reversed. These years have seen a significant reduction in specialist debt advice capacity in our advice centres as a result of reduced funding. Consequently, there is good reason to believe that these absolute figures do not represent a real fall in demand – indeed we know there remains substantial unmet demand for debt advice. Yet beneath this headline, we are also now seeing troubling changes in the *mix* of debt problems people are experiencing. Traditional credit problems are morphing into more ominous debts.

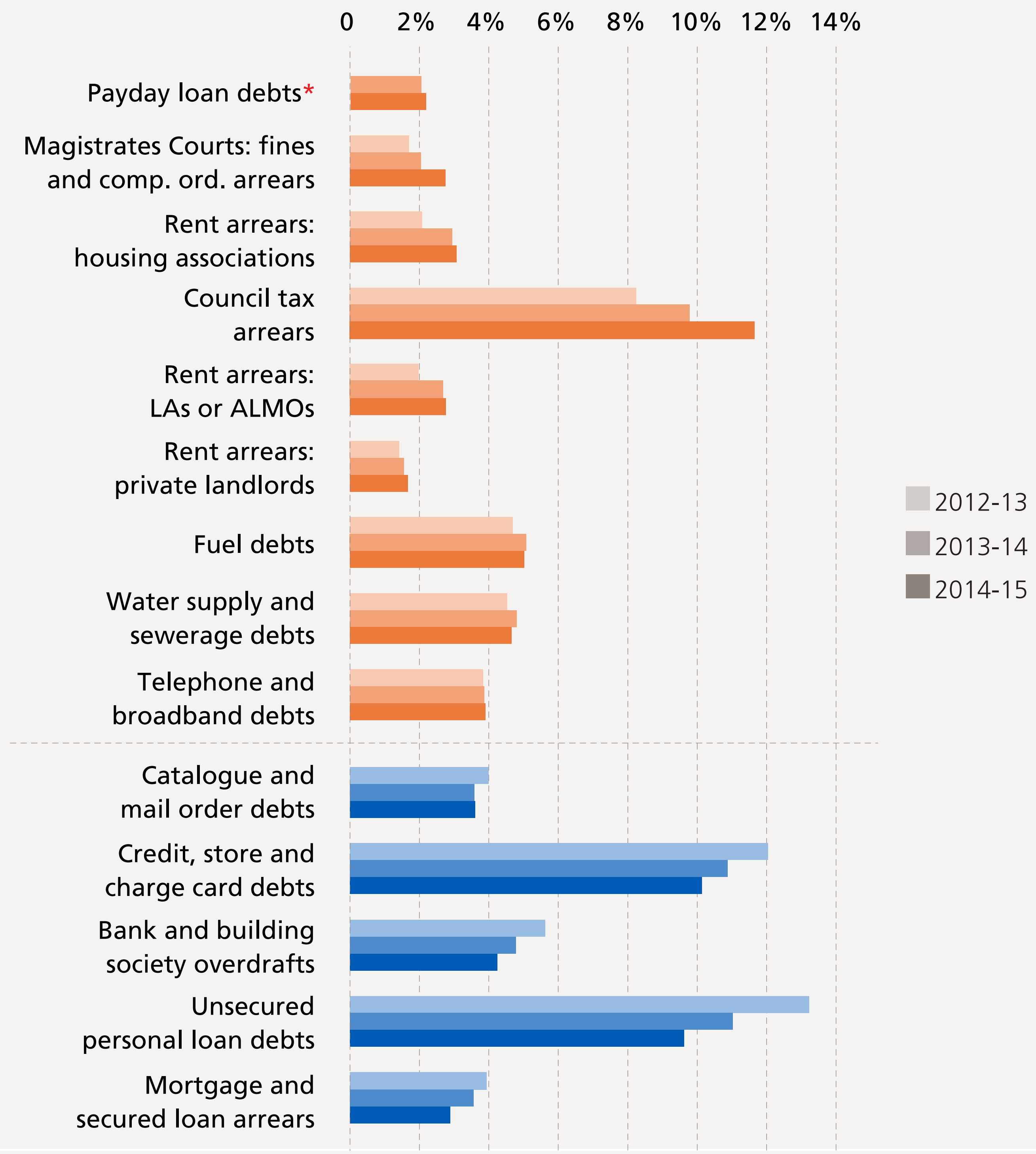
A growing proportion of our clients come to us for help with priority debts such as fuel, water, rent and council tax. Rent arrears are up five per cent while council tax arrears are up a troubling twenty per cent.[16] We also see growth in fuel debts owed to household energy providers. Within credit products, the only recent growth in issues we see has been in relation to high cost credit products such as payday loans. We will be monitoring how this changes as new rules governing high cost credit start to bite in 2015.

Meanwhile, problems with mainstream credit are falling as a proportion of the debt issues we see, likely partly because tighter credit requirements have limited access to mainstream credit products (the rise in high cost credit problems in the last year suggest that there may also have been some displacement from mainstream to high cost products). We have also seen a drop-off in the number of people seeking advice about mortgage arrears as a proportion of all debt inquiries. This is likely an echo of today's historically low interest rates, which have given homeowners welcome breathing room, and it will be important to monitor how this changes as interest rates begin to normalise.

16 2014 data based on a projection using actual figures from Q1-3 and an estimate of Q4 figures in line with the proportion of the total inquiries in the relevant categories made in Q4 in 2013/14 and 2014/15. Citizens Advice national advice statistics

Figure 2.4 **Debt problems are shifting toward arrears and priority debts**

Selected debt categories as a proportion of all debt enquiries over time



Source: Citizens Advice national advice statistics

* **Note**: payday loan growth compares 20134/14 and 2014/15

Box 4: Council tax arrears the final straw

David visited his local bureau in Yorkshire and the Humber because he was struggling to manage a number of debts. He had recently fallen into council tax arrears after the council had decided that all households were required to contribute a minimum of 19 per cent towards their council tax bill. David had previously been entitled to full council tax benefit because he was on long-term sick leave. He could not afford to pay the bill and was already behind on his mortgage, water bills and TV licence. David also had a further £6,000 of debt with the local authority due to care charges for his father and was facing a court summons.

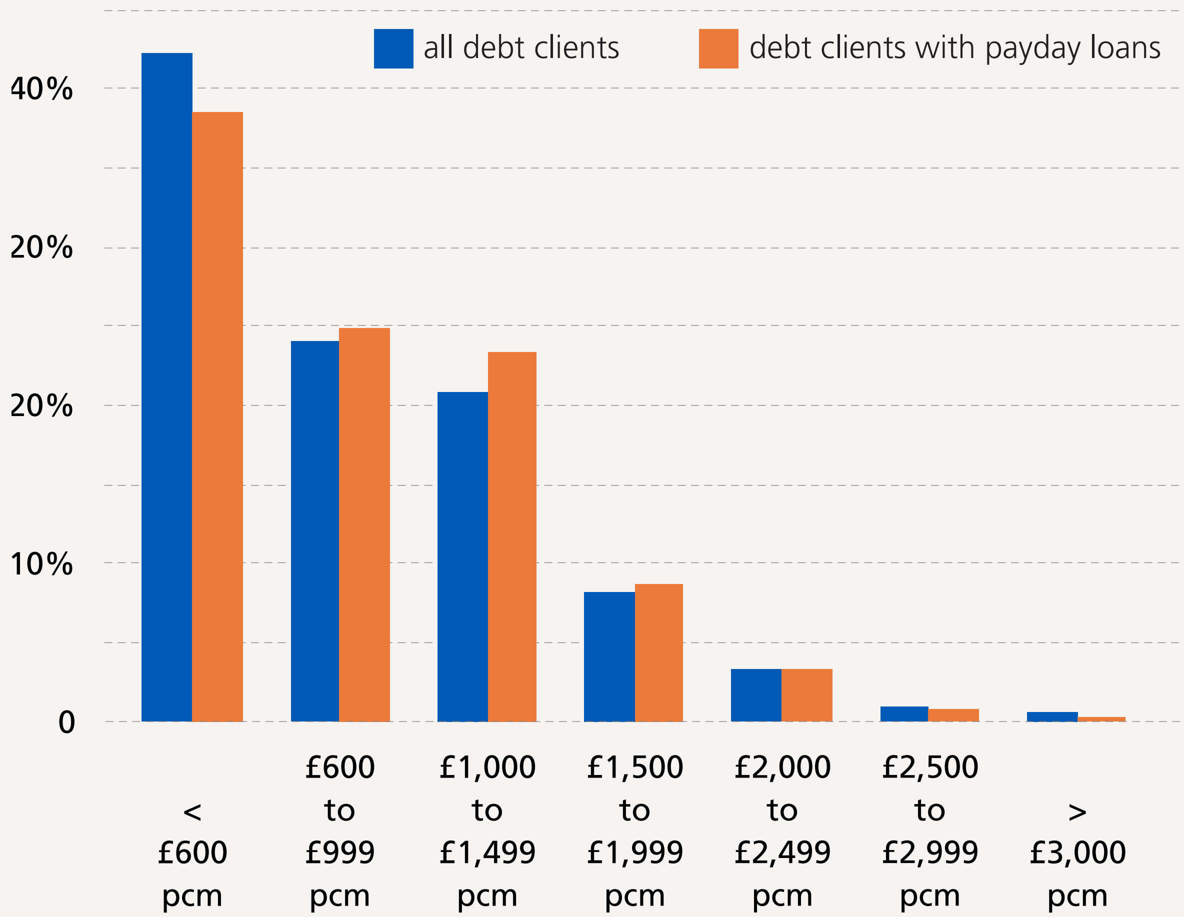
In addition to questions around the mix of different types of debt, there is an ongoing debate about how the UK's household debt burden is distributed by income. We see in our own work that low income groups are consistently over-represented among those in financial difficulty. The short-term lending sector has proven particularly problematic in recent years. As people found it increasingly difficult to access credit during the downturn, high cost lenders flourished.

Payday loan borrowers have lower incomes overall, with an average income of less than £18,000 compared to a national average of £26,500.[17] This trend is mirrored in the makeup of the people who come to us for help with their debts with our debt clients skewed towards lower incomes. Among debt clients with payday loans, we see a slightly lower share in the group with incomes below £600 a month, including unemployed clients, perhaps because of these clients' lower eligibility for credit, and a slightly higher share among clients with incomes in the range £600 to £1,500. This may suggest that payday loan problems are relatively more prominent among people in low paid work.

17 FCA *Proposals for a price cap on high-cost short term credit* (2014)

Figure 2.5 **Debt clients tend to have lower incomes**

% of bureaux debt clients by income band

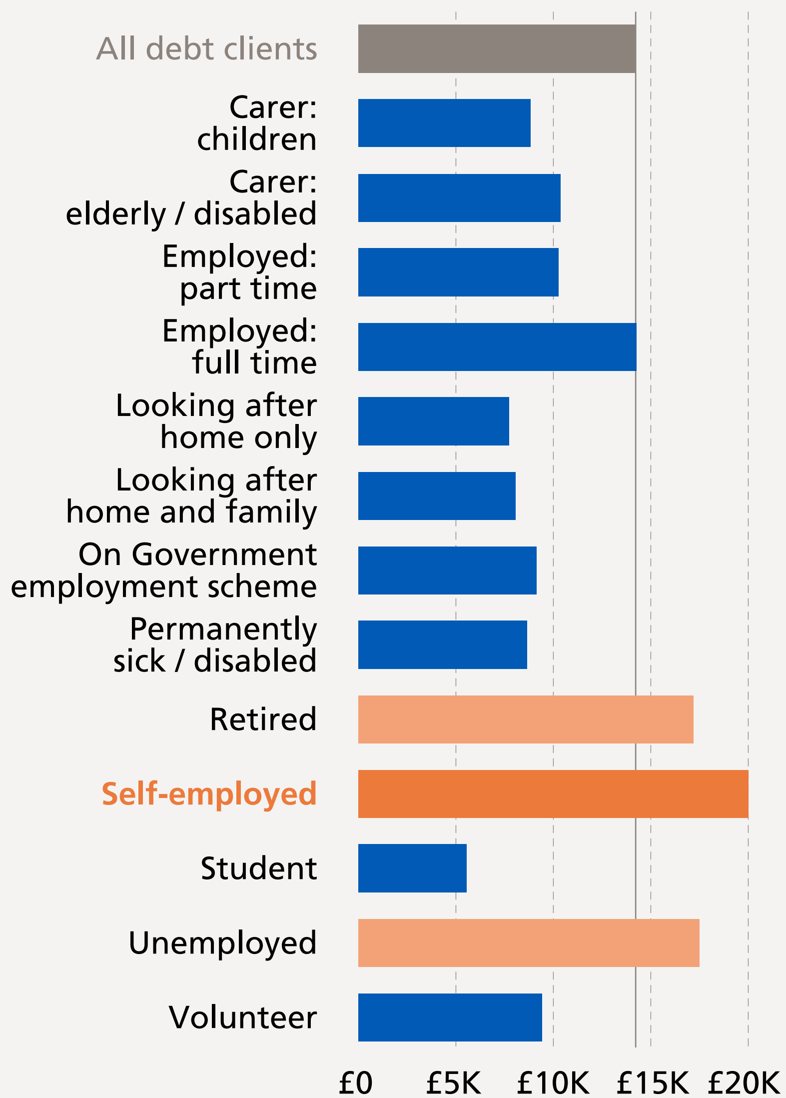


Source: Citizens Advice *Money Advice Module* data (2013)
Note: This data is taken from a sample of clients who have received detailed debt advice and have usually have progressed to a debt solution.

With debt rising, it is also important to understand how borrowing patterns vary between different groups. Looking in greater detail at the employment status and household type of our debt clients offers further insight into the uneven distribution of debt. With an average total debt of over £20,000 our self employed clients are more indebted than those with any other working status, a particularly worrying finding in light of the fact that the proportion of the population identifying as self employed reached a 40 year high in recent months.[18] The unemployed and retirees also report high average total debt at £17,500 and £17,190 respectivey, higher than the average for all debt clients (£14,200).

Figure 2.6 **Self-employed people have the most debt of all Citizens Advice clients**

Average total debt of bureaux debt clients by occupation



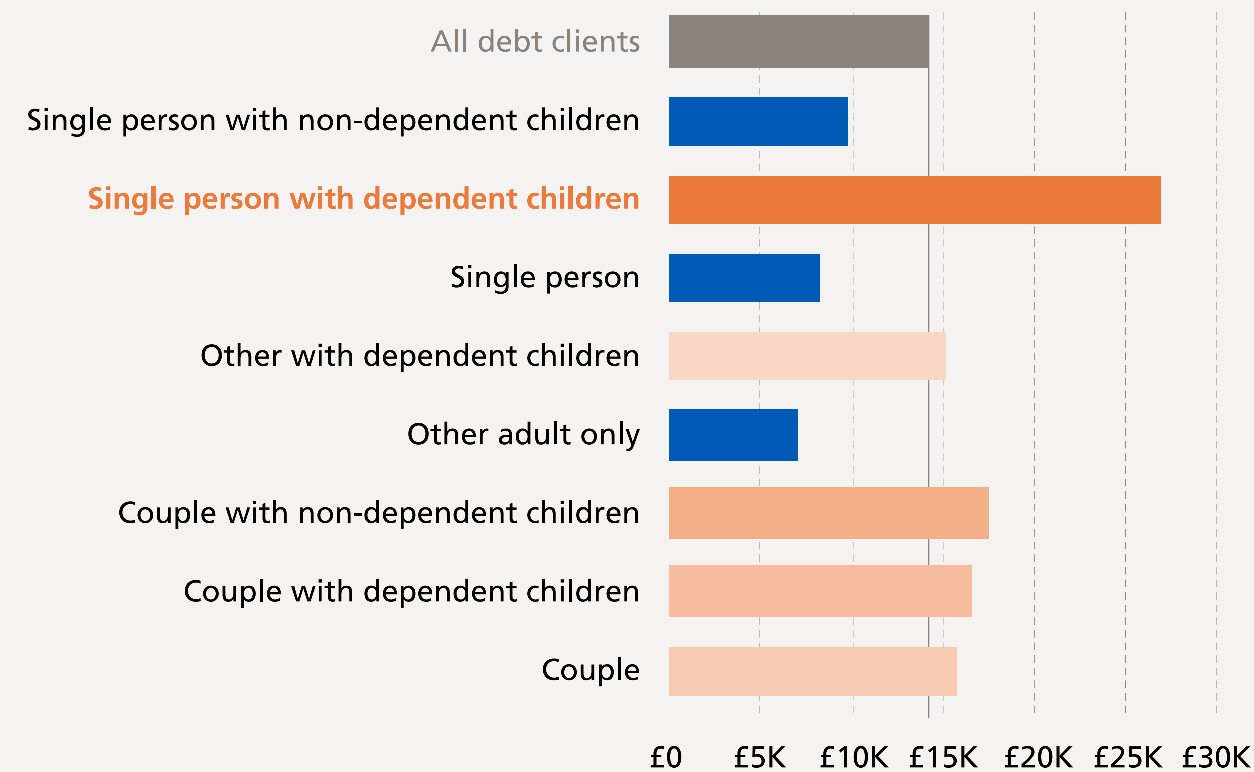
Source: Citizens Advice *Money Advice Module* data (2013)

18 ONS *Self employed workers in the UK - 2014* (2014)

Perhaps unsurprisingly, those with dependent children, and particularly single parent households, also report above average debt levels. This may simply reflect patterns of borrowing across the life-cycle, although the high levels of debt among clients who are single parents is more worrying. Our single parent clients with dependent children owe an average £26,940. This is more than three times the average debt of our single clients without children and is nearly double the average debts of our debt clients. With at most one adult income, these clients are particularly vulnerable to shocks from unemployment or reduced working hours.

Figure 2.7 **Lone parents are more indebted than other Citizens Advice clients**

Average total debt of bureaux debt clients by household type

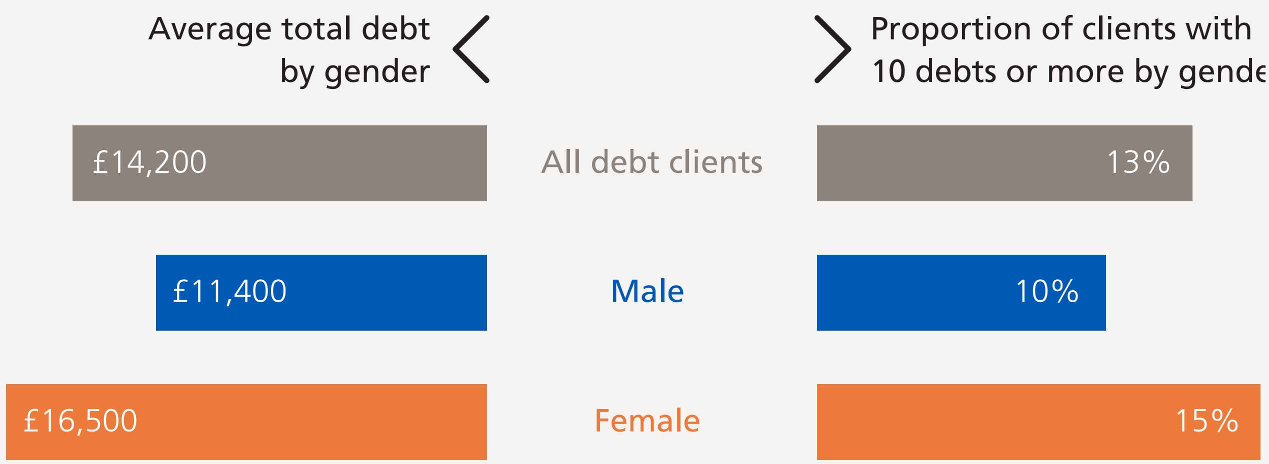


Source: Citizens Advice *Money Advice Module* data (2013)

Our data also suggest a gender divide in debt problems, with female debt clients reporting greater average debt levels (£16,502) than their male counterparts (£11,358). These figures interact with our findings on families, with women more likely to be lone parents than men. Our wider data also suggest that

Figure 2.8 **Women seek advice about greater debt levels and multiple debts**

Average total debt and proportion of debt clients reporting ten debts or more by gender



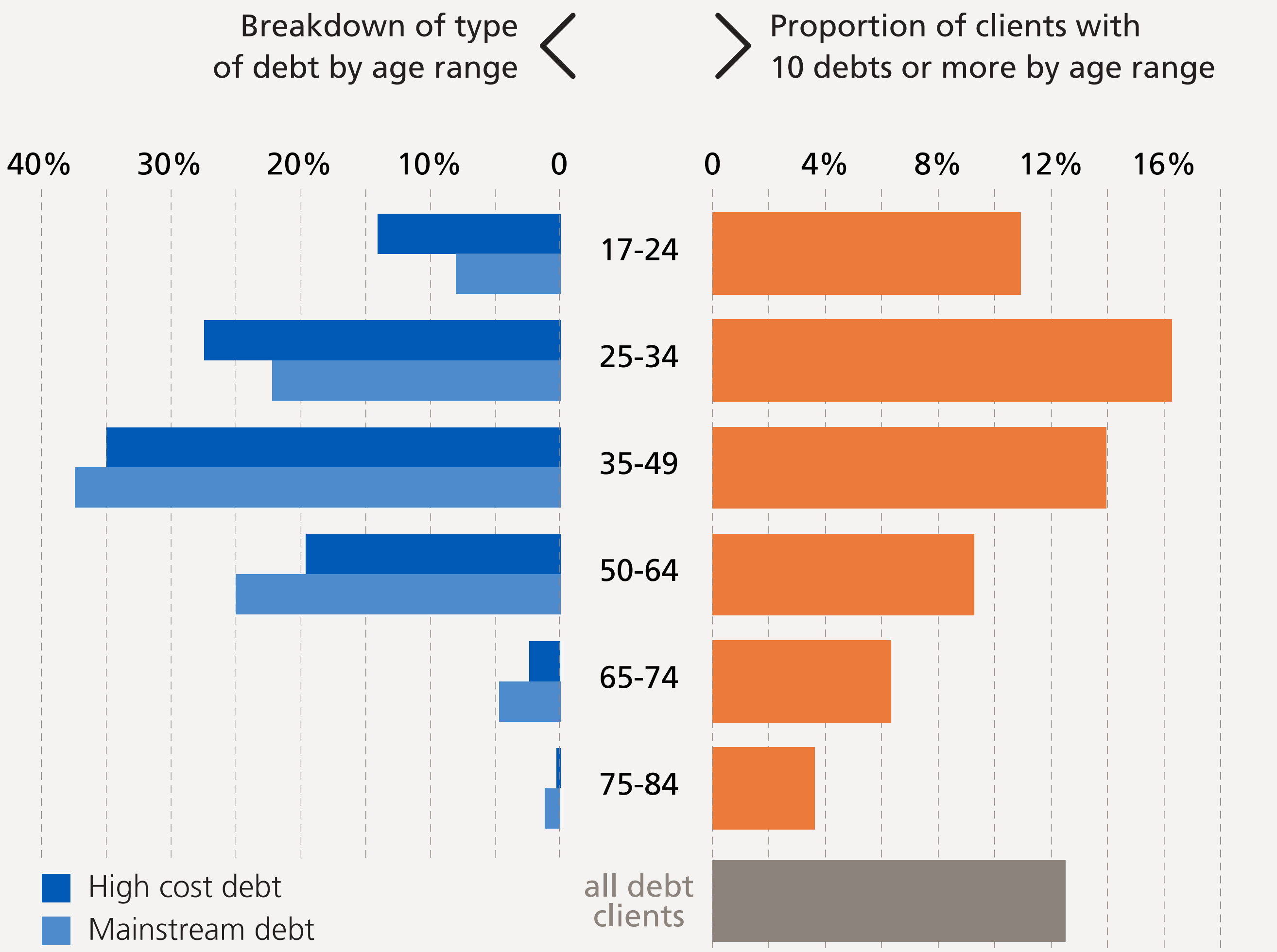
Source: Citizens Advice *Money Advice Module* data (2013)

women are more likely than men to seek advice, and often do so on behalf of a household. This may help to explain why our female clients are also more likely to have ten debts or more, a situation that is common among households experiencing serious debt problems. In these situations people can often avoid repayment problems and sometimes save substantial amounts by rescheduling or restructuring their debts. In 2012/13, for example, we helped clients reschedule £80 million of debt, dealing with debts in an order that minimised harm.

When it comes to consumer losses from high cost debt contracts, we have particular concerns about young people. 17-24 year olds and 25-34 year olds make up 10 and 22 per cent of our debt clients overall but in cases of high cost credit problems the proportion of clients in these age groups rises to 14 and 27 per cent. Conversely, clients in older age groups are less likely to have high cost debts. We also find that young people are more likely to have an array of different loans. 16 per cent of 25-34 year old debt clients came to us with 10 debts or more, compared to 13 per cent of all debt clients. These clients are often spending large amounts of money on unnecessarily high interest payments and associated fees.

Figure 2.9 **Young people are more likely to have multiple and high-cost debts**

Average total debt and proportion of debt clients reporting ten debts or more by gender



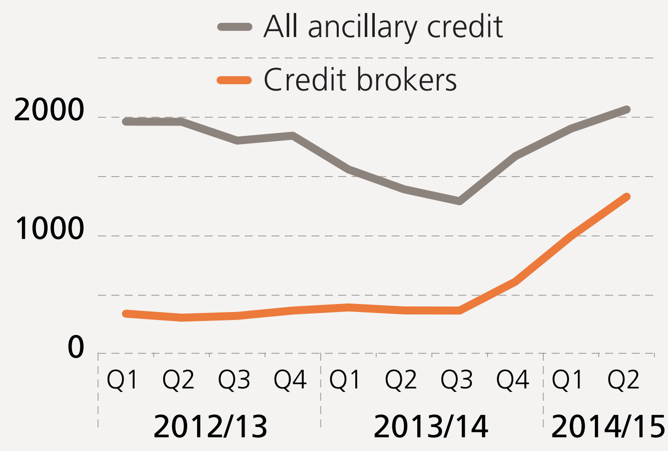
Source: Citizens Advice *Money Advice Module* data (2013)

The particular problem of high cost credit

The irresponsible lending and poor debt collection practices of high cost lenders has caused significant and widespread consumer detriment over the last few years, leading to sustained campaigning by Citizens Advice and others for stricter rules and stronger enforcement action from regulators. We were pleased when the FCA introduced far tougher rules for payday lenders. These new rules, which came into effect on 2 January 2015, will help limit the losses from high cost credit, reducing the number of people who borrow unsustainable amounts and offering better protection to those who can afford to borrow from responsible lenders.

Figure 2.10 **Last year calls about credit brokers nearly trebled**

Number of calls to the Citizens Advice consumer service about credit brokers



Source: Citizens Advice consumer service statistics

However, the credit market rarely stands still and, as we have seen, demand for short term credit options is unlikely to fall in the short-term. In this context, our data often flags up emerging problems. Last year, for example, we saw a sudden surge in problems relating to credit brokers. In the second quarter of 2014/15, we saw a 257 per cent increase in calls to the Citizens Advice consumer service about credit brokers compared to Q2 2013/14. Callers had lost an average of £89 from undisclosed fees or downright deception. We took up the issue with the FCA and welcomed their decision to introduce tough new rules from January 2015 without consultation – an unusual step and a welcome precedent in cases of such clear cut detriment.

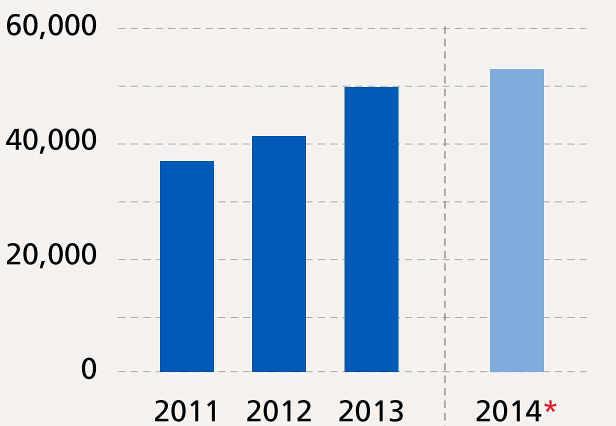
At the start of 2015, we continue to see other problems with high cost credit. One problem in particular relates to logbook loans, a form of high cost credit that can prove even more harmful than payday loans.

Logbook loans

Logbook loans, technically known as bills of sale, are a Victorian debt contract used to borrow money against property. Historically, logbook loans were often used to borrow money against furniture, linens or carriages, but in recent years substantial numbers of these loans have been issued against cars as a shortage of mainstream options has pushed consumers into a search for new forms of credit. Our Freedom of Information Request reveals that the number of bills of sale registered with the High Court increased by 44 per cent to 53,000 between 2011 and 2014.

Figure 2.11 **Logbook loan numbers have increased year on year**

Total number of logbook loans registered with the High Court each year



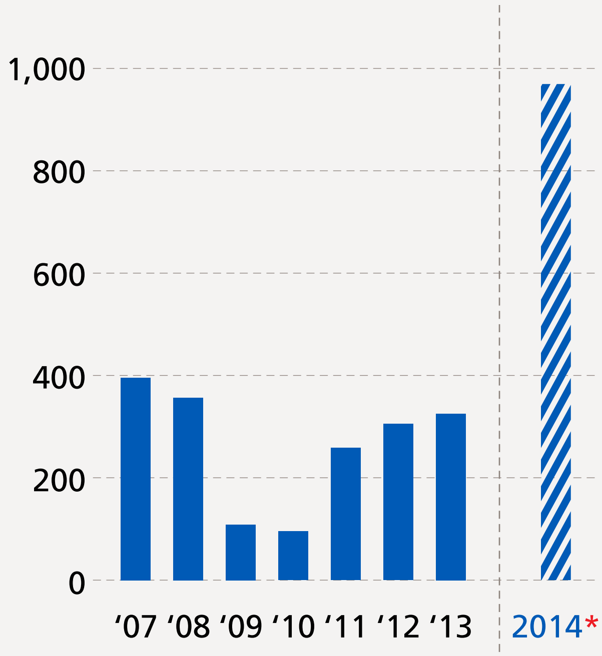
Source: Citizens Advice freedom of information request to the High Court (December 2014)

* **Note**: 2014 figure is estimated from 11 months of data on basis of December's share of all new registrations in previous years

Logbook loans are an exemplary case of outdated consumer protections; the law governing logbook loans is still the 1878 Bills of Sale Act, legislation that includes provisions relating to money lent against steam engines. People coming to us are often in significant financial difficulty as a result of these outdated products and protections. The most common cause of the problems we see are low levels of understanding about the way logbook loans work, extremely high interest rates and fees, inadequate affordability assessments and insufficient protections for people who unwittingly buy a car that has an unpaid loan associated with it. Many borrowers do not realise that, when taking out a logbook loan, ownership of the property (nearly always a car) passes to the lender, meaning the vehicle can be repossessed without notice.

Figure 2.12 **We now know better the number issues related to logbook loans**

Total number of enquiries to bureaux about logbook loans each year



Source: Citizens Advice national advice statistics

* **Note**: To ensure we were capturing the issue accurately we changed the way record logbook loan cases in 2014/15. This change in coding explains the spike in issues we report in this year and means our 2014/15 data is not comparable with earlier data points. We now believe we are more accurately capturing the volume of problems experienced by our clients.

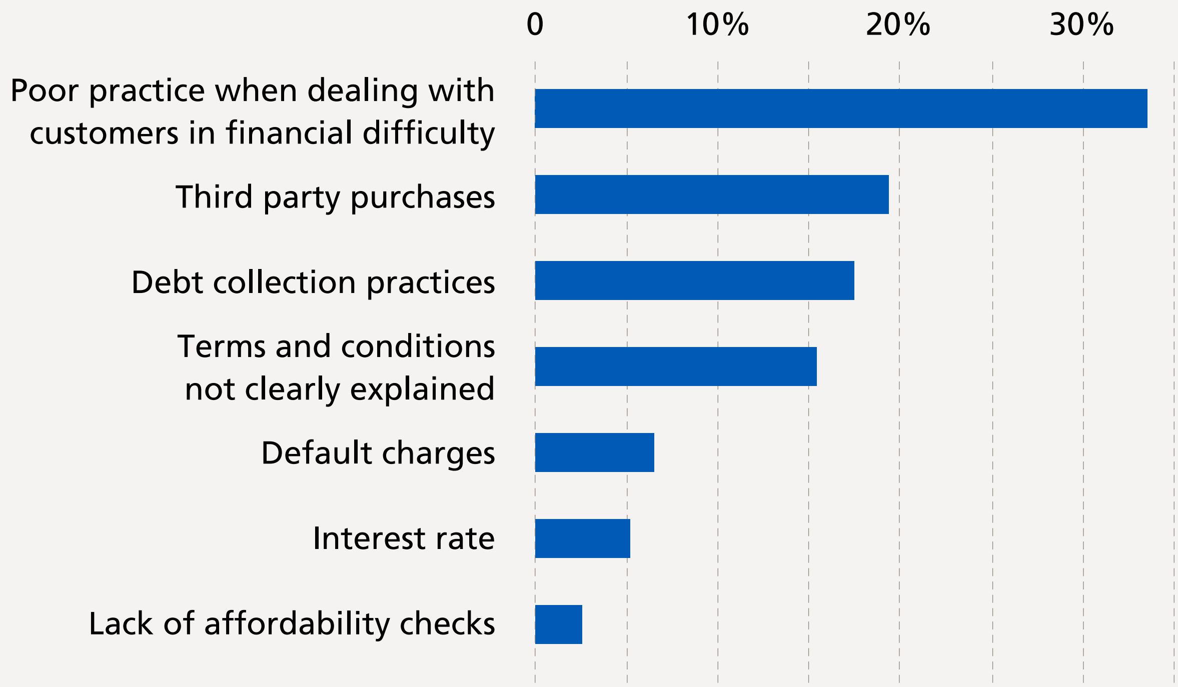
The number of issues reported to Citizens Advice Bureaux in relation to logbook loans has fluctuated since 2007 and to ensure we were capturing the issue accurately we changed the way record logbook loan cases in 2014/15. This change in coding explains the spike in issues we report in this year. We now believe we are more accurately capturing the volume of problems experienced by our clients.

We also know that our clients who use logbook loans in particular can ill-afford for things to go wrong. Clients with debts which included one or more logbook loans had an average of ten different debts totalling £23,000. This compares to our wider debt clients who reported an average of 5 debts totalling £14,000.

The Law Commission is currently reviewing the law governing logbook loans following a successful Citizens Advice campaign. However, this review is not due to report until late 2016. While we welcome this process and are supporting the work, these timescales mean that as many as 100,000 borrowers could be exposed to the unacceptable risks of a logbook loan before this archaic law is updated.

Figure 2.13 **We see a range of poor practices from logbook loan lenders**

Issues reported to the Citizens Advice consumer service regarding to logbook loans



Source: Citizens Advice consumer service statistics (2014)

Box 5: Spiralling debt

John visited his local CAB in the South East of England for advice about a logbook loan. He had taken out a loan for £2,250 in March 2013 against a car worth £8,000 and agreed to make payments of £75 per week. John made a few payments but then fell behind and the amount he owed spiralled. The loan company repossessed his car in December 2013 and kept writing to him for more money. The last letter sent to John said he owed an additional £5,000, even though the value of the car should have more than covered the original debt and any interest payable.

Conclusion

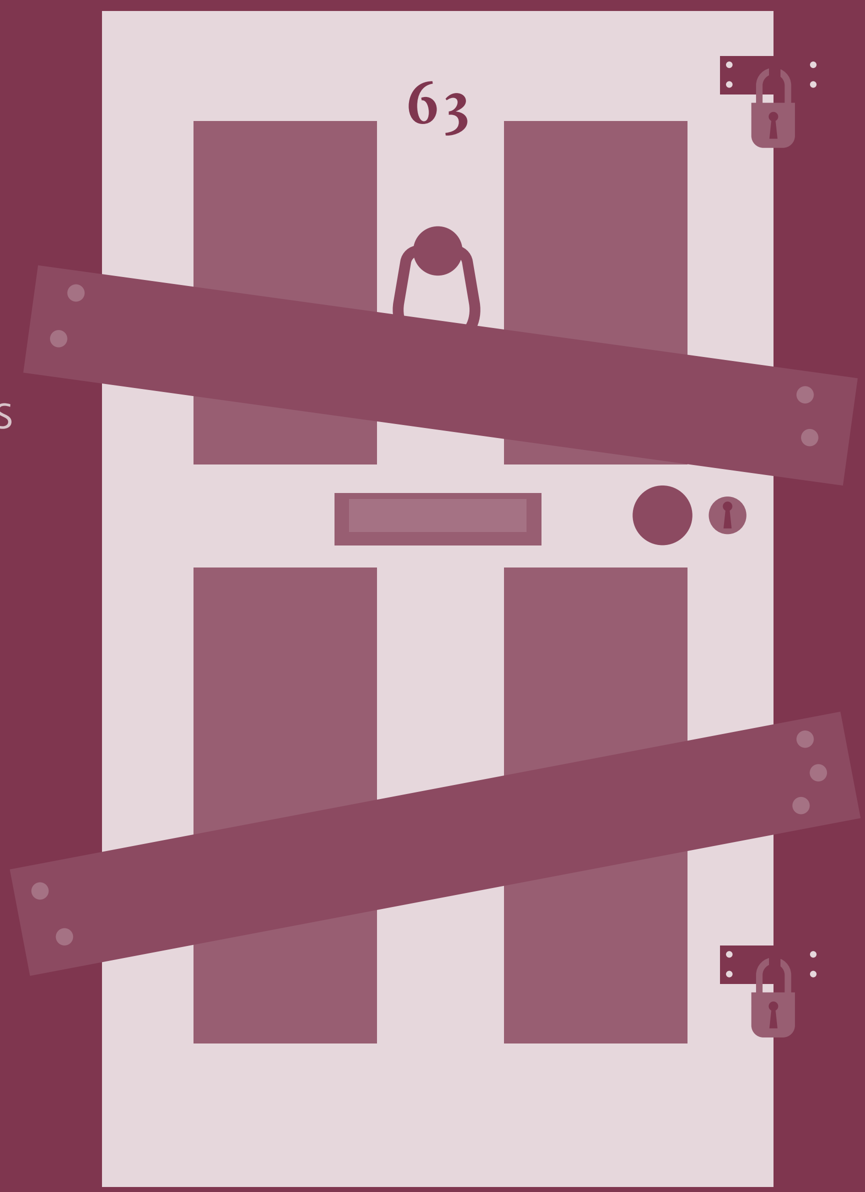
Forecasts for private borrowing have worsened markedly in the last year even while the wider economy has improved. In 2014 alone the OBR added £174 billion to its forecasts for household debt in 2019, fuelled by a mix of rising house prices and rising unsecured lending. In the face of such vast numbers, debates about debt are often abstract, but we see first hand what £2.43 trillion of household debt can mean in practice, particularly at the margins of a market in which mainstream lending remains relatively constrained. New products, practices and firms, and even whole new industries, come into being in short order. With the stock of debt so high, and forecasts for income so weak and uncertain, it matters enormously how Britain's household debt is governed and structured.

Chapter 3

Housing

Key issues in this chapter:

- housing market trends
- private rental problems
- weak consumer protections

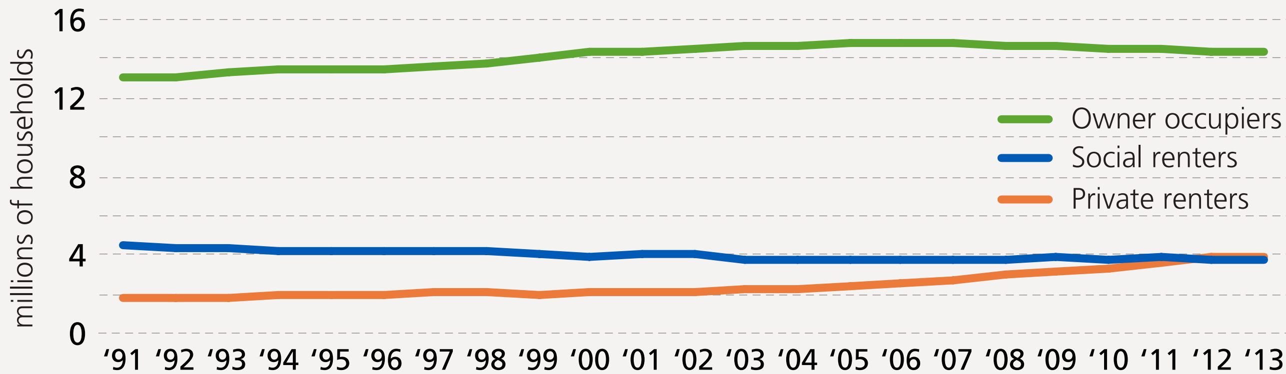


Few consumer markets have changed more fundamentally in recent years than Britain's housing market. A combination of rising house prices, the drying up of credit, and a squeeze on real household incomes – particularly affecting the young – has raised the barriers facing first time buyers. As a result, the rate of homeownership now appears to be in long-term structural decline. With social housing stock also under pressure, the private rental market has grown to absorb this demand. Far more people, including families with children, now turn to private renting for a long-term home.

The sheer velocity of change in the housing market is striking. In England the overall number of private rented households overtook social housing for the first time in 2011/12, having been half this number as recently as 1999.[19] For younger households, the changes are even more abrupt. As the Resolution Foundation has reported, among low to middle income people under 35, private renting now outnumbers homeownership.[20] Official data shows changes not only in the number of people renting privately, but in who those people are.[21] In previous decades, it was common to wait to buy a house before starting a family. Now the average age at which people buy their first home has risen to 29 while the average age of first time motherhood is 28.1.[22]

Figure 3.1 **The private rented sector has now surpassed social housing**

Trends in housing tenure, millions of households by tenure



Source: Citizens Advice analysis of ONS English Housing Survey 2012-13 (2014)

19 ONS English Housing Survey 2012-13 (2014)

20 Resolution Foundation, *Essential Guide to Squeezed Britain* (2012)

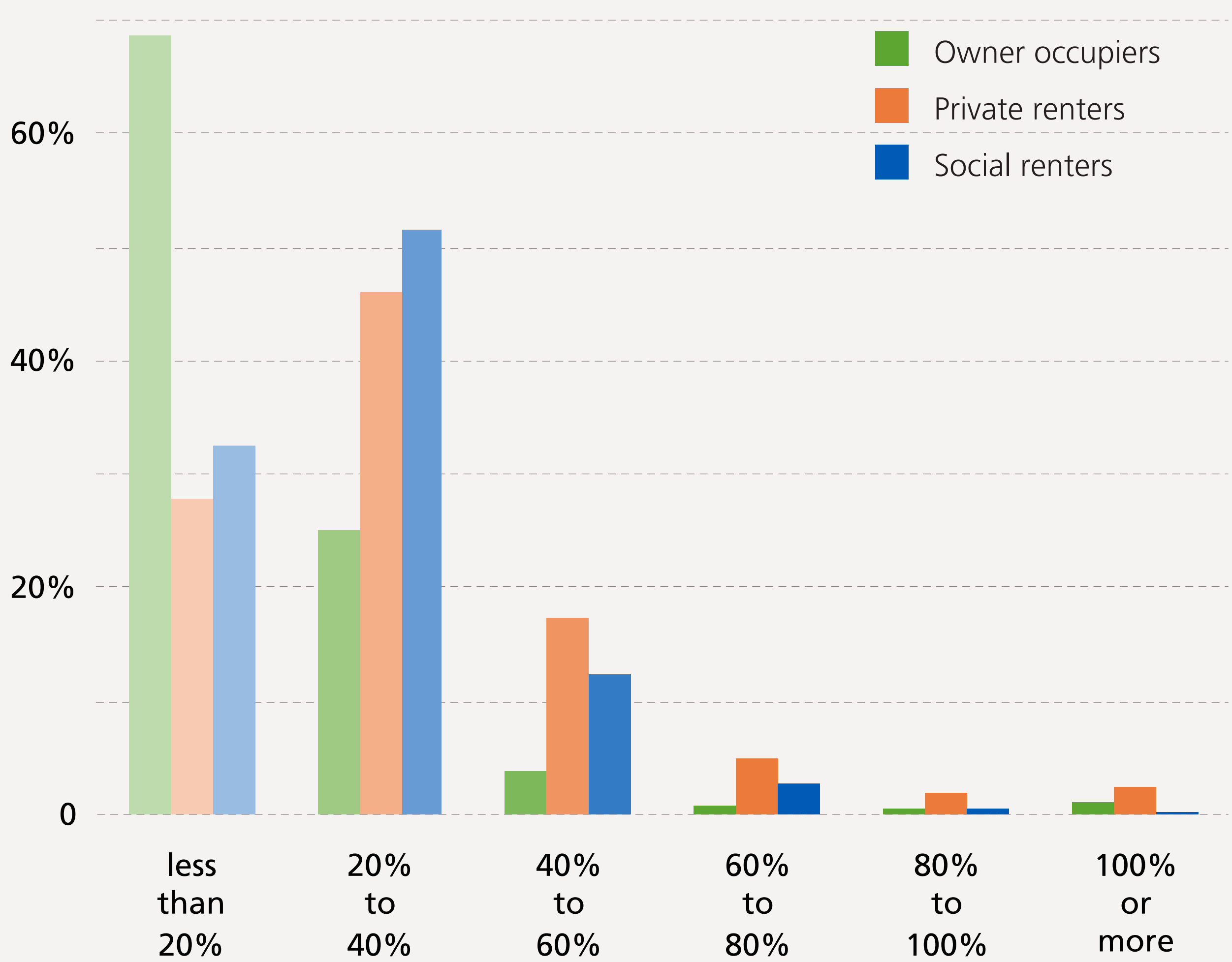
21 See, for example: Department for Communities and Local Government *English Housing Survey: Headline Report 2012-13,* (2013)

22 Council of Mortgage Lenders, Office for National Statistics.

These are major changes for consumers, not least because housing takes up so large a proportion of monthly income. Pressure from housing costs is particularly high for private renters. In England, rent makes up on average 35 per cent of monthly expenditure for private renters, compared to an average of 18 percent for owner occupiers and 29 per cent for social renters. In this sense, housing is the biggest consumer market of all, with failings in that market having a correspondingly large impact on the quality of peoples' lives.

Figure 3.2 **Private renters face particular pressure from housing costs**

Proportion of household income spent on housing costs by tenure

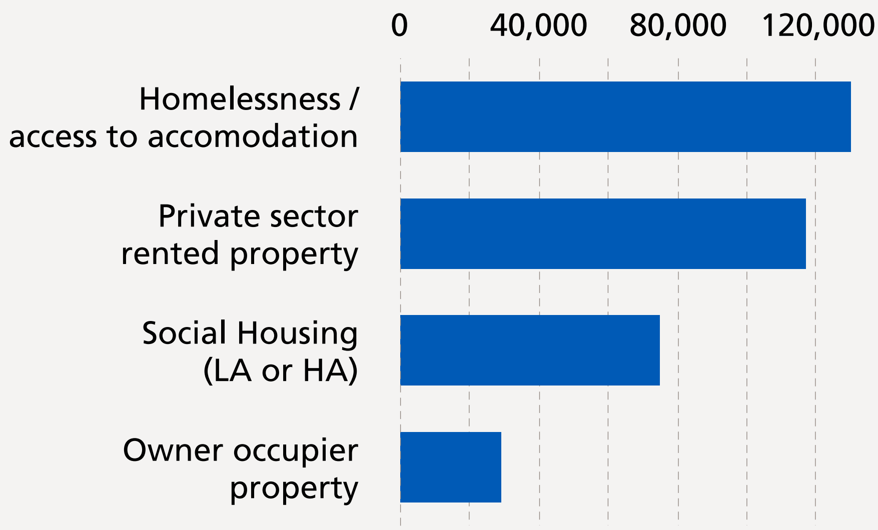


Source: Citizens Advice analysis of English Housing Survey 2012 to 2013 household report (2014)

Problems in the private rental sector

Figure 3.3 **Citizens Advice see a troubling volume of private renting problems**

Total number of enquiries to bureaux in relation to housing (last four quarters)



. Source: Citizens Advice national advice statistics

We see changes in the housing market show up directly in the issues people come to us for help with. Our bureaux dealt with 440,000 enquiries about problems relating to housing in the last year alone, not including enquiries about housing-related debts such as rent and mortgage arrears, or welfare-related enquiries about housing benefit.[23] Figure 3.3 shows how the housing enquiries we received broke down for different housing tenures. Homelessness and related problems account for 130,000 issues a year, including many cases of severe detriment. But when comparing tenures directly, problems related to privately rented property are more common than for either social rented or owner-occupied properties. More than 300 problems with private rental accommodation are brought to our advisers every day.

What problems drive so many people to seek help with a privately rented property? The most commonly reported issues were repairs and maintenance, rents and other charges and problems with tenancy deposit protection. We also see many problems relating to eviction, including landlords taking possession action for reasons other than rent arrears. For the people involved in these cases, the harm caused is substantial.

23 Citizens Advice national advice statistics

Retaliatory evictions, exemplified by the case described in Box 6 – in which a tenant is evicted in revenge for challenging a landlord's behaviour or requesting repairs – are a common story that emerges from our data. Under current law, it is legal to evict a tenant for requesting a repair.[24] The problems reported are not limited to landlords. In 2013/14, we received 4,600 reports of problems with letting agents, an increase of 4 per cent on 2012/13.[25] These complaints included disputes about fees, quality of service and the handling of customer money. The many problems we see with deposits, related to the behaviour of both letting agents and landlords, show that tenants' rights, already weak in theory, are often even weaker in practice. On paper, tenants' deposits are now covered by registered tenant deposit schemes. But in much of Britain there remains no licensing infrastructure to ensure landlords and letting agents abide by these rules, meaning enforcement and redress when things go wrong are patchy.[26]

Box 6: Evicted for reporting a mouldy flat

Jasmine came to Citizens Advice when she was living in a property in which mould covered the floor, walls and windows. The landlord had treated the mould once but it had returned and Jasmine had asked him to treat it again. The landlord had refused and served Jasmine with a section 21 eviction order because she was 'moaning too much'. Jasmine told us she had tried to negotiate with her landlord, and had also made a complaint to the local environmental health officer, providing evidence of the state of the property. But with the law as it stands she had little right to appeal the landlord's decision.

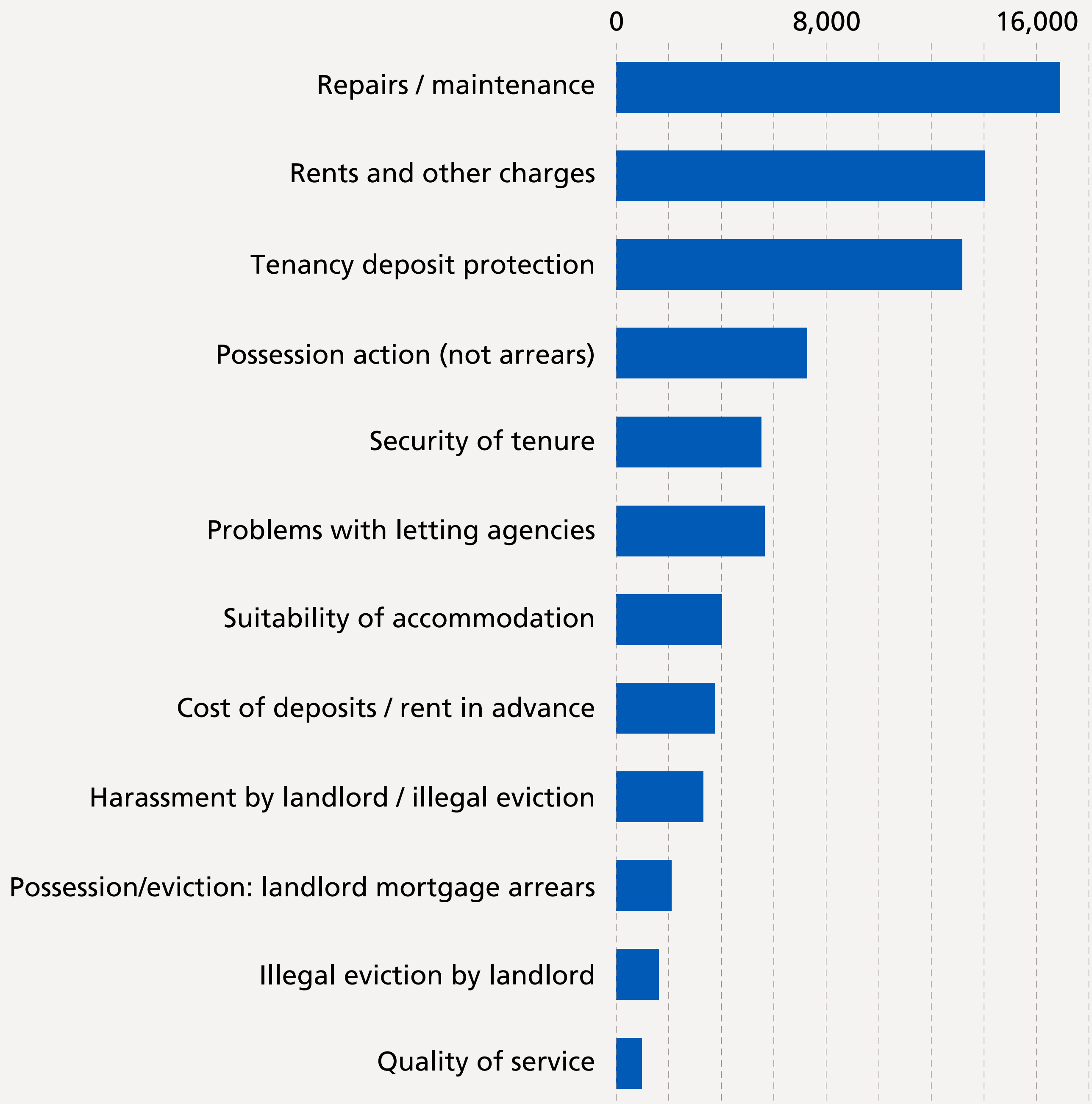
24 We are hopeful that progress on this issue is forthcoming in both England and Wales. In England, an amendment is tabled to the Deregulation Bill that, if passed, would ban retaliatory evictions while the Welsh government is expected to introduce measures against retaliatory evictions in the Renting Homes Bill to be introduced in February 2015.

25 Citizens Advice national advice statistics

26 While most landlords in Britain remain unlicensed, a number of landlord licensing schemes are now either planned or in place. For example, mandatory licensing comes into force in Wales in autumn 2015 while the borough of Newham in London introduced mandatory landlord licensing in 2013.

Figure 3.4 **Repairs, charges and deposits are top issues for renters**

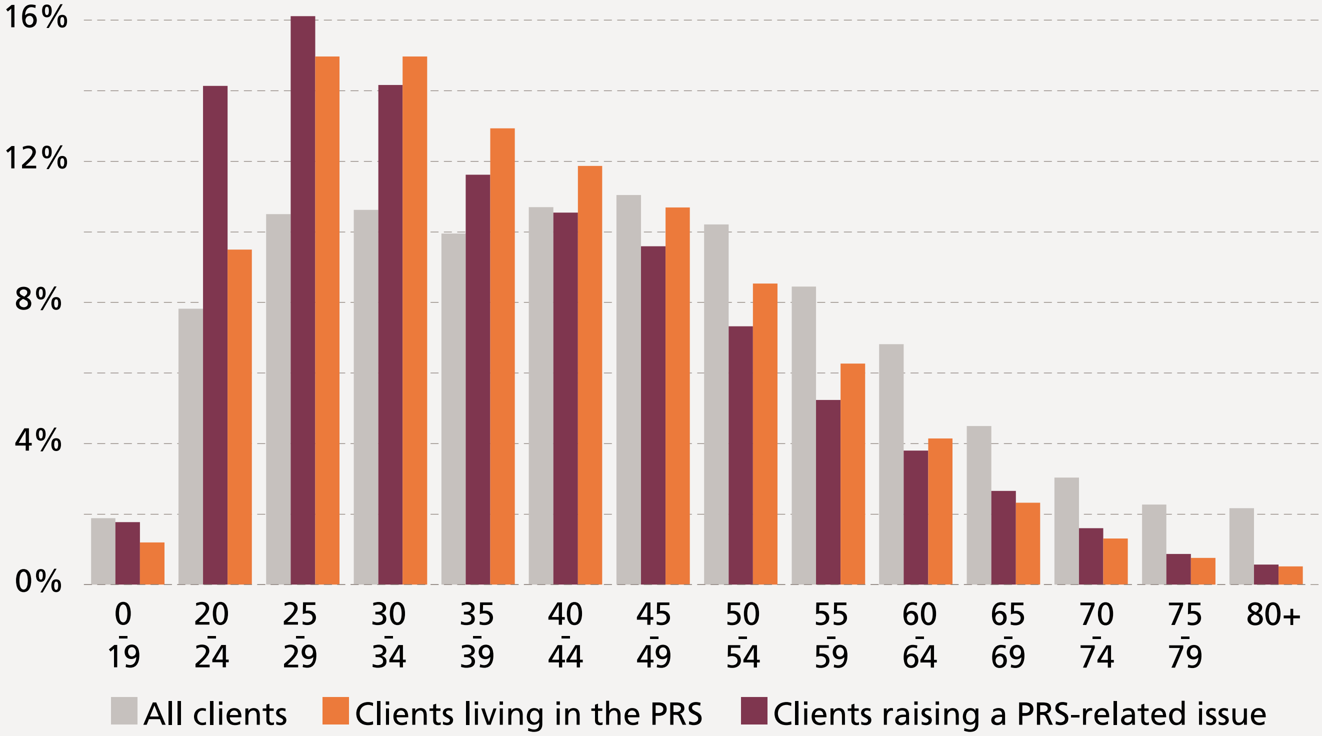
Breakdown of issues dealt with by bureaux in relation to private rented properties (Q3 2014/15 - Q2 2014/15)



Source: Citizens Advice national advice statistics

Figure 3.5 **Young people bear the brunt of private rental sector problems**

Breakdown of bureaux clients as a whole, clients living in the private rented sector and clients reporting a private rented sector issue by age (Q2 2014/15)



Source: Citizens Advice national advice statistics

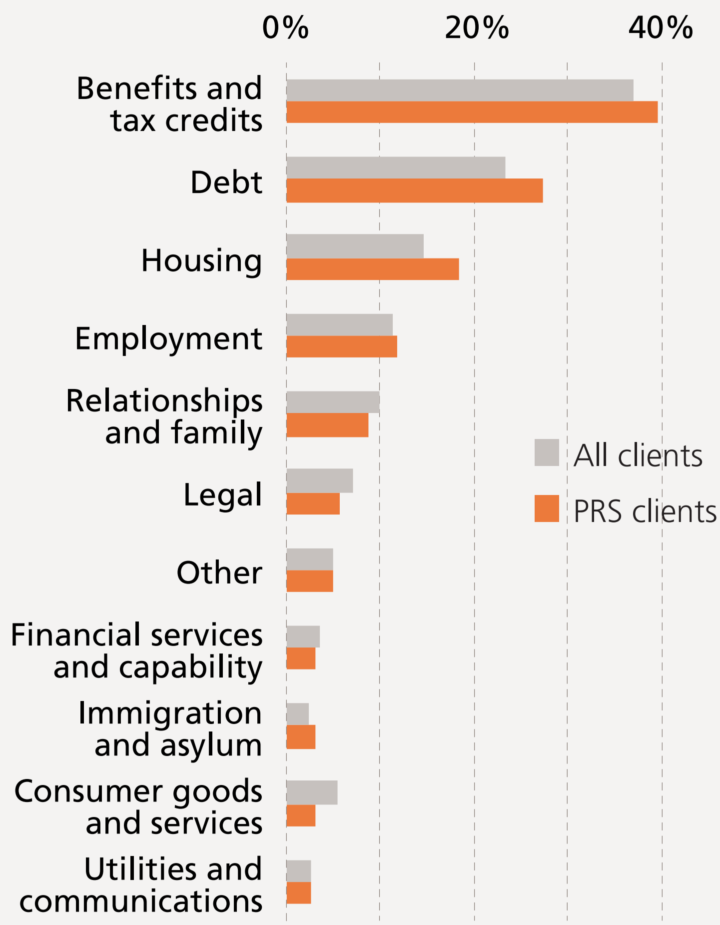
While problems with private renting affect all age groups, our data suggests they disproportionately affect the young. Figure 3.5 shows the age distribution of all the people who reported an issue last year to a Citizens Advice bureau. By comparison, clients living in the private rental sector tend to be younger. Those aged 25-39 are particularly likely to live in a privately rented property. And when looking at clients who report problems with private rented accommodation, the distribution becomes even younger. Our clients aged under 30 are more likely to live in the private rental sector, and they are even more likely to experience problems. Despite making up only 20 per cent of all our clients, young people make up 30 per cent of clients seeking help with a private rental sector issue.[27]

27 Citizens Advice national advice statistics

When failures occur in a consumer market as important as housing, the fallout reaches well beyond housing itself. With a lack of pressure on landlords to make repairs, disrepair in private rental sector properties is common. Data in England shows that the physical state of privately rented properties has not improved in the last decade, even while both owner-occupied and social housing have.[28] With tenants so weakly protected, and therefore understandably reluctant to complain, flaws can persist for many years, with well-documented wider effects on health.[29]

Figure 3.6 **Private renters also report more issues with debt**

% of clients living in the private rented sector seeking advice on selected issues compared to all clients



Source: Citizens Advice national advice statistics

Our data also shows that clients renting privately have worse outcomes in a range of domains. Figure 3.6 compares issues reported by all clients to those who live in a privately rented home. Our clients who rent privately are more likely to experience problems not only with housing but also with benefits and tax credits and debt. Aside from housing, debt shows the biggest difference; 27 per cent of clients who live in the private rented sector report a debt issue, compared to 23 per cent of our overall client base.[30]

28 Poverty and Living Standards, New Policy Institute (2014)

29 For example see Housing and Health, Briefing from the Houses of Parliament Parliamentary Office of Science and Technology (2011)

30 Citizens Advice national advice statistics

Box 7: Comparing consumer rights for renters

In most aspects of our lives as consumers, we assume that the goods and services we buy or rent will be safe and functional. If they do not work as promised we can generally assume they will be repaired or our money will be refunded. For private renters, however, the same basic expectations do not apply. The condition of a rented apartment can be substandard or even unsafe and yet it can be difficult or impossible to have repairs made. Refunds rarely apply at all. In a recent project we audited the protections consumers receive in traditional consumer markets and compared these with the protections that private renters enjoy[*].

We found that, while private tenants do have statutory rights to a safe home in good repair, they face substantial barriers to having these rights upheld in practice. While welcome steps are underway in some regions and countries in Britain to strengthen renters' rights, most renters still face the risk of retaliatory eviction by the landlord, a lack of Local Authority support, and a lack of any regime to license landlords, meaning tenants' rights often have no bite. These differences lead to a strange imbalance in consumer protections. Across much of Britain, people are now better protected when buying a toaster than when renting a flat, while taxi drivers are more tightly governed than the landlords who let, and have access to, our homes.

Our audit of consumer rights points to a number of opportunities to bring tenants' rights up to standard, including:

- How rights to repair could be better applied for private renters, in particular by ending the risk of retaliatory eviction;
- How refund rights could be used to give tenants money back when a rented property quickly turns out to be dangerously uninhabitable, for example by extending rent repayment orders to properties with category 1 or 2 hazards; and
- How local licensing could be rolled out more widely to stop the worst offending landlords in the same way licensing is used to stop unhygienic restaurants or unsafe taxi operators.

* Citizens Advice *Renting Uncovered* (2015)

Conclusion

Britain's private rental sector bears all the hallmarks of rapid growth. Nearly twice as many people rent privately as ten years ago and many now rely on the sector for a long-term family home. A patchwork of protections is being slowly extended in some areas, but most renters remain uncovered, lacking rights we take for granted elsewhere. At Citizens Advice we see the consequences of this in the more than 300 problems reported to us every day with privately rented accommodation: renters evicted because they asked for a repair, renters charged high and inexplicable fees by their letting agent, and renters struggling to secure redress after something has gone wrong. In 2015 we will be continuing our research into the problems renters face and the lessons that could be learned from wider consumer policy to ensure private renting can provide a safe and settled home.

Chapter 4

Consumer goods

Key issues in this chapter:

› measuring consumer losses

› online marketplaces

› mobile and broadband

We saw in Chapter 1 that the volume of consumer problems changed over the course of the downturn. This partly reflects the economic cycle; as consumer spending declined so did problems with some consumer goods. But we also see secular trends in consumer detriment that are more reflective of ongoing changes in the economy, such as technological innovation. In this chapter we look in more detail at some of the challenges in consumer goods markets that present themselves in 2015.

Consumer challenges over time

The top two categories of consumer goods problems we see are second hand cars and home maintenance. In both cases issues declined in the early years of the downturn as consumer activity dried up, before rising again as spending has begun to recover. We have long campaigned for better protections in these markets, in which big ticket purchases come together with a fragmented marketplace to cause widespread consumer detriment. The losses people face when a car or building project fail are well-established, but now, more than ever, these are losses people can ill-afford, and we continue to work on this front.

Behind these long-standing problems, however, we see some more structural challenges to the adequacy of consumer protections. The recent downturn has run alongside an ongoing transformation in the way consumer markets work and rapid technological advances are reshaping everything from the way we buy things to the way we communicate. In this chapter we touch on two of these developments: the continued rise of peer-to-peer trading and the challenges confronting the mobile market. Our analysis suggests that these markets present a key challenge for consumers as we head into 2015, and one to which policymakers, businesses and regulators need to be more alive.

Box 8: Counting the personal cost of consumer detriment

Each year Citizens Advice conducts follow up interviews with a sample of people who have used our services to understand whether their situation has improved as a result of the advice and support they were given. In 2014 we carried out more than 1,800 interviews with people who had received advice from the Citizens Advice consumer service. Of those interviewed, 898 said 'things had got better' after receiving advice and 563 were able to put a financial value on the resolution of their problem. The mean average value people reported was £788, the median £230 and the 25th and 75th percentiles £99 and £600 respectively.

As an example of the variation in problems we see, one woman called the consumer service for advice after she had ordered a free sample of slimming pills online and agreed to pay a £4.95 posting and packaging charge. She later found out she had unknowingly signed up to a free trial which would automatically lead to further charges unless she cancelled within 14 days. The advice she received, to send the goods back and ask the bank to block further payments, saved her £250; around the median of those we helped.

For a sense of scale, it is useful to place these losses in the context of household income. Average final household income, after all taxes and benefits, is £2,653 per month. Ordinarily, consumer losses fall on people in one go, meaning a hit to their monthly budget. An individual on average income losing £250, for example, would have to make do without 9 per cent of their monthly budget. The impact is even more severe for those in the lowest income decile, for whom £250 represents nearly one fifth (19 per cent) of their monthly income. This is more than the average monthly household spend on food (£216) in 2013.[*]

Of course, losses can be higher. A quarter of our respondents said their problem had been worth £600 or more. One woman, for example, called us because she had paid a deposit of £600 to a letting agent when she moved into her flat in 2011. She moved out in February 2014 and by May she had not had her deposit back. She then discovered the letting agent was no longer trading. Our support eventually saved the client £600. To put this number in context, £600 was more than a week's spending for an average household (£517) in 2013.[**] In 2015 we will be carrying out more detailed work to quantify the scale of losses that stem from consumer issues.

[*] ONS (December 2014) *Family Spending*, 2014 Edition

[**] ibid

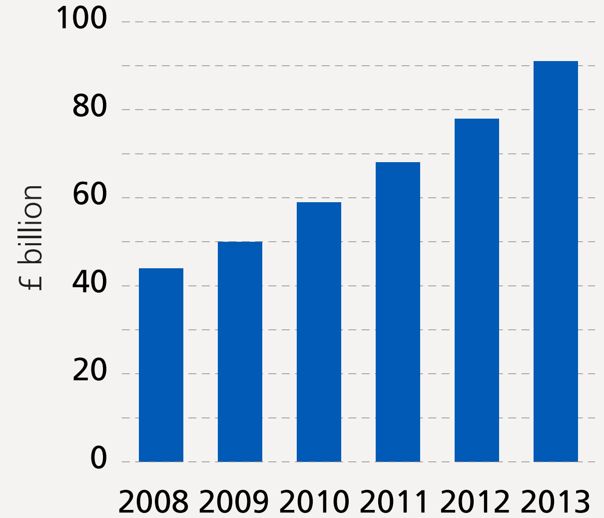
Protecting consumers in online marketplaces

Behind the flux of consumer spending in the downturn there was a continued shift in the way people spend money. Even as the UK economy moved through its most severe downturn in a generation, the annual value of e-commerce sales more than doubled from £44 billion to £91 billion between 2008 and 2013.[31] This rapid shift to online shopping is reflected in the calls received by our consumer service. The proportion of calls we receive relating to problems with goods bought online doubled between 2005 and 2013, as the world of consumer detriment, scams and schemes, migrated online along with the wider consumer market.

31 Ofcom *The Communications Market Report* (2014)

Figure 4.1 **Online sales grew fast even through the downturn**

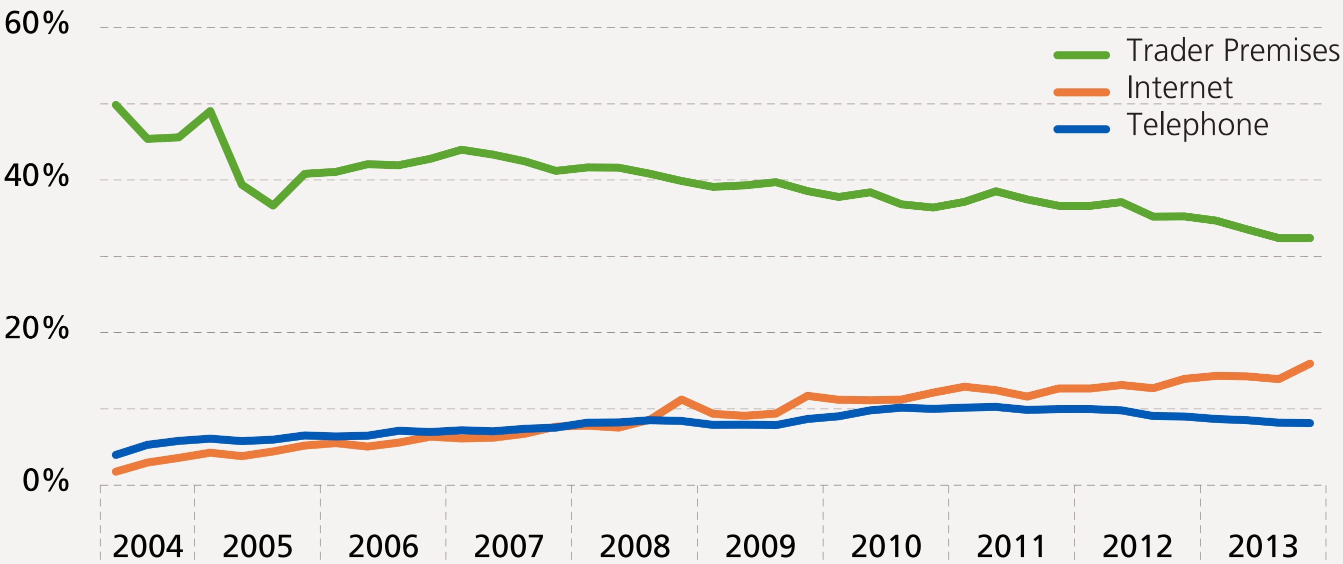
Value of UK e-commerce sales, £ billion per year



Source: Citizens Advice analysis of data from Ofcom's *The Communications Market Report* (2014)

Figure 4.2 **Consumer problems with online purchases have doubled since 2005**

Enquiries to the Citizens Advice consumer service - method of purchase



Source: Citizens Advice consumer service statistics

The move online has created many opportunities for consumers, improving convenience and price, and opening up access to new products and traders. But alongside these opportunities come new and changing risks, and our data shows how fertile an environment online trading can be for new scams. With transactions less clearly prescribed; carried out with sellers we may never meet, based in different locations or even jurisdictions, and with a lack of clarity over rules and regulations, online scams can be easier to pull off and redress can be harder to secure. From 2012/13 to 13/14 we saw issues relating to online scams more than double, while specific new scams emerge with startling speed. For example, in late 2014 we saw a sudden spike in problems with slimming pills as traders alighted on a new way of using free trials to trick people into authorising withdrawals from their banks accounts (see Box 8).[32]

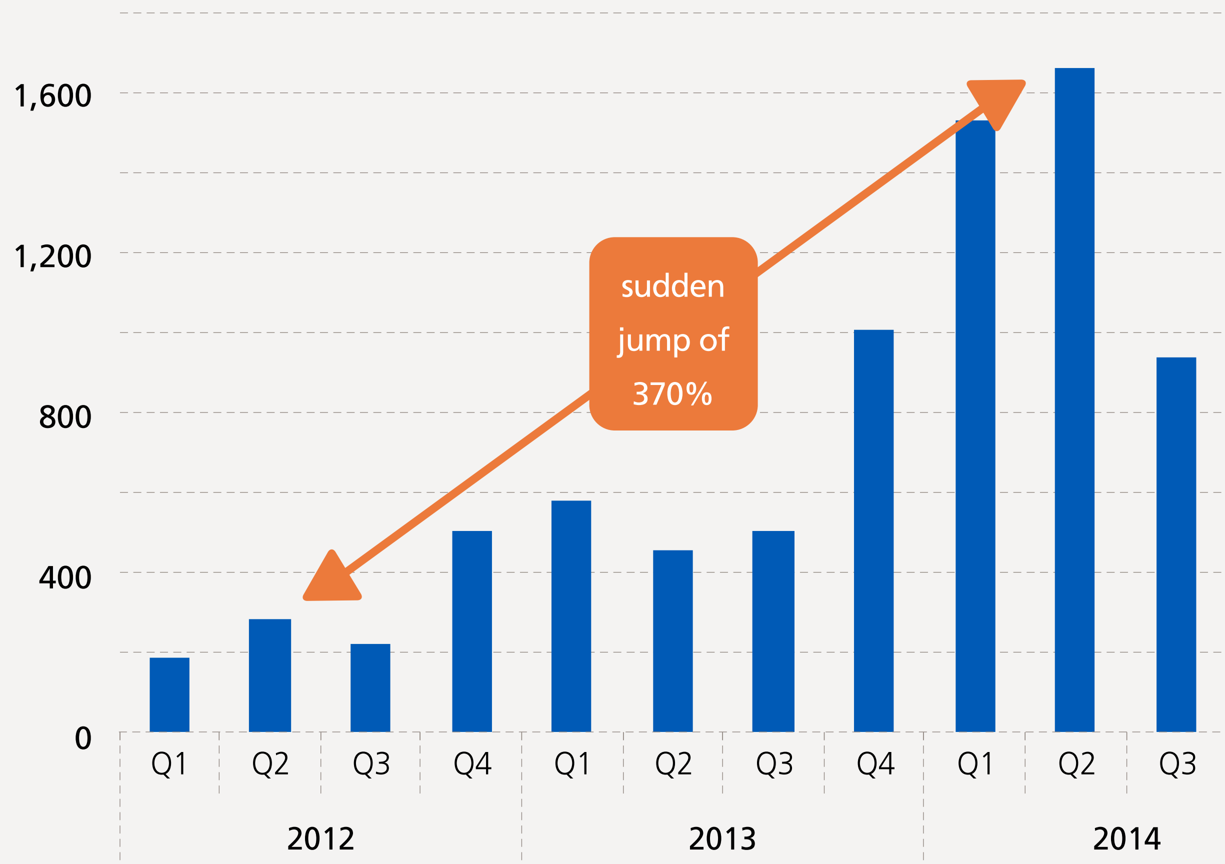
Box 9: Slimming pills – rogue traders seizing on new opportunities

Complaints about slimming pills to our consumer service nearly quadrupled from Q2 2012/13 to Q2 2014/15 before dipping in Q3. The majority of these cases relate to online transactions, often targeted through social media platforms. In these scams the customer gives their debit or credit card details to pay a nominal amount for postage of a 'free trial' and unknowingly enters into an ongoing contract to buy up to a year's supply of slimming pills. Scams such as this may seem trivial in the grand scheme of things, but for the people affected the losses are anything but. The people who reported these problems to us had an average spend of £135 and in two thirds of cases between £50 and £350 was debited. These unnecessary losses cause real financial hardship in a context in which every penny counts.

32 Citizens Advice analysis of calls to the Citizens Advice consumer service

Figure 4.3 **Last year we saw a sudden spike in calls about slimming pills**

Total number of cases dealt with by the Citizens Advice consumer service in relation to slimming products and services



Source: Citizens Advice consumer service statistics

Online marketplaces

Aside from the sharp-end of online scams, a more general challenge is also emerging from our data: the question of how consumers are protected in a peer-to-peer economy. Online marketplaces such as eBay had 110 million active users globally in 2013, allowing both businesses and individuals to buy and sell to each other. These innovations deliver huge benefits to consumers and contribute to the wider social benefits of the sharing economy.

Alongside their benefits, online marketplaces also raise new challenges. Our forthcoming research finds that a minority of people are aware that they have far fewer rights when buying from an individual as opposed to a business, and this lack of awareness can leave people vulnerable. The Citizens Advice consumer service advised 8,700 people about problems encountered when buying something from an online marketplace in 2014.[33] Analysis of a subsection of these cases found that:

- **53 per cent** were about problems relating to faulty goods,
- **26 per cent** were to do with goods not matching the description given, and
- **15 per cent** related to people not being able to contact the seller to resolve an issue.

Online marketplaces have an interest in protecting their customers, and some already have good systems in place, but as consumer markets continue to evolve more thinking will inevitably be needed.

Mobile market

The second consumer market that has undergone change at an equivalent pace is telecoms, and in the latter half of this chapter we consider the consumer challenges raised by mobile phones.

Mobile phones have gone from being a luxury item to an essential service in a generation. In their social and economic importance they could now be considered a utility. Take-up of mobile phones stands at 95 per cent of adults and mobile-only households, with no landline, are now even more common among socioeconomic groups D and E than among groups ABC.[34] These households depend on their mobile for a range of essential economic and civic functions, from work to managing finances to reporting crime.

In their social and economic importance mobiles are now in effect a utility

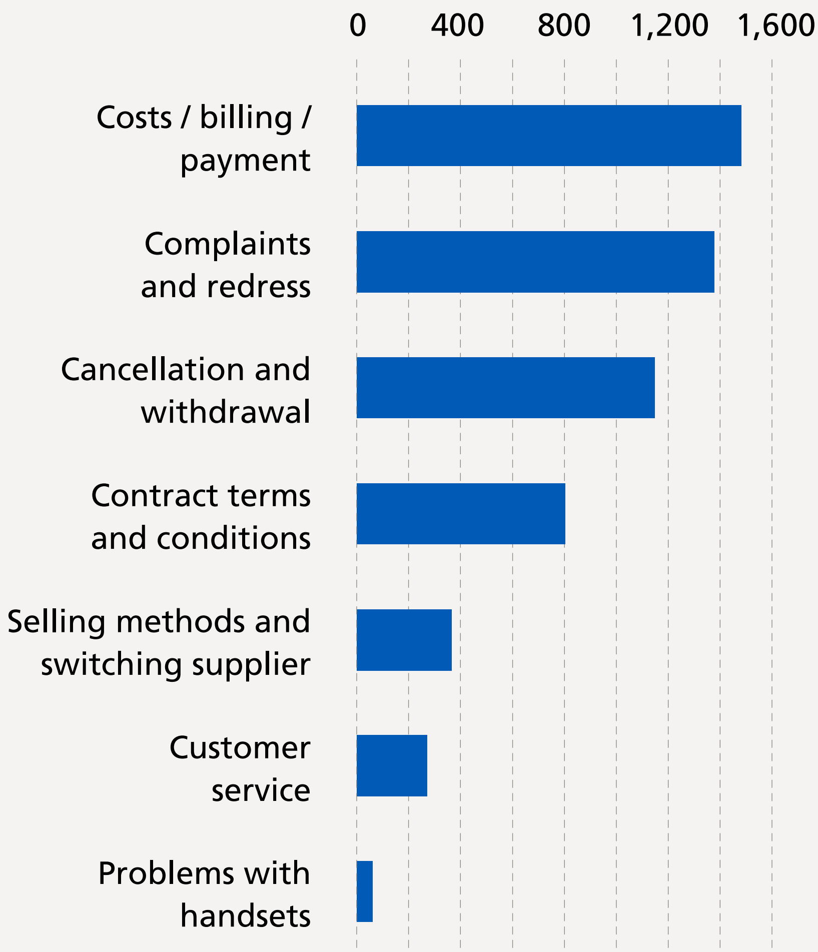
Looking at the issues we see, telecoms is now the fourth largest category of issues dealt with by our consumer service. This puts telecoms behind the fragmented markets of second car dealers and builders/home repairs, as well as the energy market. We received 23,000 calls in the last year about telecoms, while mobile phone

33 Citizens Advice analysis of calls to the Citizens Advice consumer service

34 Ofcom *The Communications Market Report* (2014)

Figure 4.4 **Billing, redress and cancellation are the top mobile phone issues we see**

Breakdown of problems reported to the Consumer service in relation to mobile phones (Q1 2014/15)



Source: Citizens Advice national advice statistics

service agreements and mobile phone hardware were the third and fourth most common categories of specific detriment people called us about. These are not the levels of detriment we would expect from a mainstream, regulated and increasingly essential consumer service. They also compare unfavourably with the volume of calls we get about the energy market.[35] Our forthcoming report explores the mobile market in greater detail, finding widespread problems with billing systems, mis-selling, cancellation rights and standards of service.

35 Calls to our consumer service about the energy market are boosted by the fact that our helpline number is widely communicated to energy customers, for example by being printed on the back of energy bills.

Box 10: Misleading broadband adverts

In recent months we have become increasingly concerned with the misleading nature of many broadband advertisements. In December we submitted a formal complaint to the Advertising Standards Agency (ASA) against a range of major broadband providers. Our complaint requested a ban on adverts that mislead people about the cost of broadband contracts and we have also asked the ASA to consider reviewing the sector as a whole.

We are particularly concerned with the practice of not including all fees – in particular, the monthly line rental charge – in the headline price that is advertised. Claims that broadband is 'free' or costs as little as £2 a month are plainly misleading when a consumer also has to pay a much larger, additional and compulsory monthly line rental charge. This situation is becoming even less tenable as consumers move away from fixed line phones, and a growing number of people would choose a contract without line rental if they could. The exclusion of compulsory fees and the misuse of the word 'free' is making it harder for consumers to compare deals and is hindering new entrants to the market.*

Broadband advertising is one of several issues in the wider broadband market. Between June 2013 and 2014 our consumer helpline received 3,300 calls about broadband and internet problems,** of which:

- **23 per cent** related to cancellation and withdrawal rights,
- **18 per cent** related to complaints and redress, and
- **15 per cent** concerned costs, billing or payment.

People regularly report to us situations in which they are paying for a broadband service they are not receiving, either because the company has not sent an engineer to install the necessary equipment or because the service simply is not working and the company has not taken steps to resolve the issue.

To give one typical example, Victor called our consumer service for advice after taking out a broadband contract with a large service provider. Two months after taking out the contract he was still waiting for his connection to be installed. Three appointments with an engineer had been cancelled by the provider and a promised phone call to confirm the installation date failed to materialise. When Victor decided to cancel his contract, having not received the service he was paying for, he was told he would have to pay a £120 exit fee.

* New entrants to the market are now starting to offer 'broadband only' services without line rental. But as things stand these services seem much more expensive than the misleading deals advertised by mainstream providers.

** Citizens Advice analysis of calls to the Citizens Advice consumer service

Conclusion

Many of the problems we see in consumer goods markets are long-standing and are the subject of ongoing work from consumer organisations. Second hand cars and building repairs have long caused substantial and unnecessary detriment and continue to justify more assertive action. There is also, however, growing urgency in areas where consumer protection is ill-equipped for the future. Peer-to-peer trading is growing fast, quickly becoming a mainstream way to buy goods and services, and while this trend offers huge advantages for consumers and should be encouraged, it is clearly a problem if traditional consumer rights do not apply in one of our fastest growing consumer markets.

Likewise, consumer protections date quickly in a market as fast-moving as mobile phones. Mobiles can now cost hundreds of pounds, making a mobile contract in effect a largely unregulated unsecured loan. As new mobile billing payment systems develop, turning mobiles into debit or credit cards, this issue will only grow. Meanwhile, mobile-only households are on the rise, especially among socioeconomic groups D and E, making mobiles even more like an essential utility. In consumer goods markets like these, policy makers and regulators have to run fast just to stand still.

Chapter 5

Household energy

Key issues in this chapter:

› rising bills – and profits

› poor customer service

› prepayment meters

Of all consumer issues, energy bills have been the most salient in political debate in recent years. Prices have risen far in excess of household incomes, leaving many households struggling to heat and power their homes to a comfortable degree. Because lower income households spend more of their income on essentials like gas and electricity, these trends have also widened inequality in living standards.

With the responsibilities we have taken on from Energywatch through Consumer Futures, Citizens Advice works daily to secure energy customers a better deal. We see directly through this work the issues people are facing. This chapter concludes the report by touching on some of the key issues we see from energy customers, not least the continued failures of prepay products.

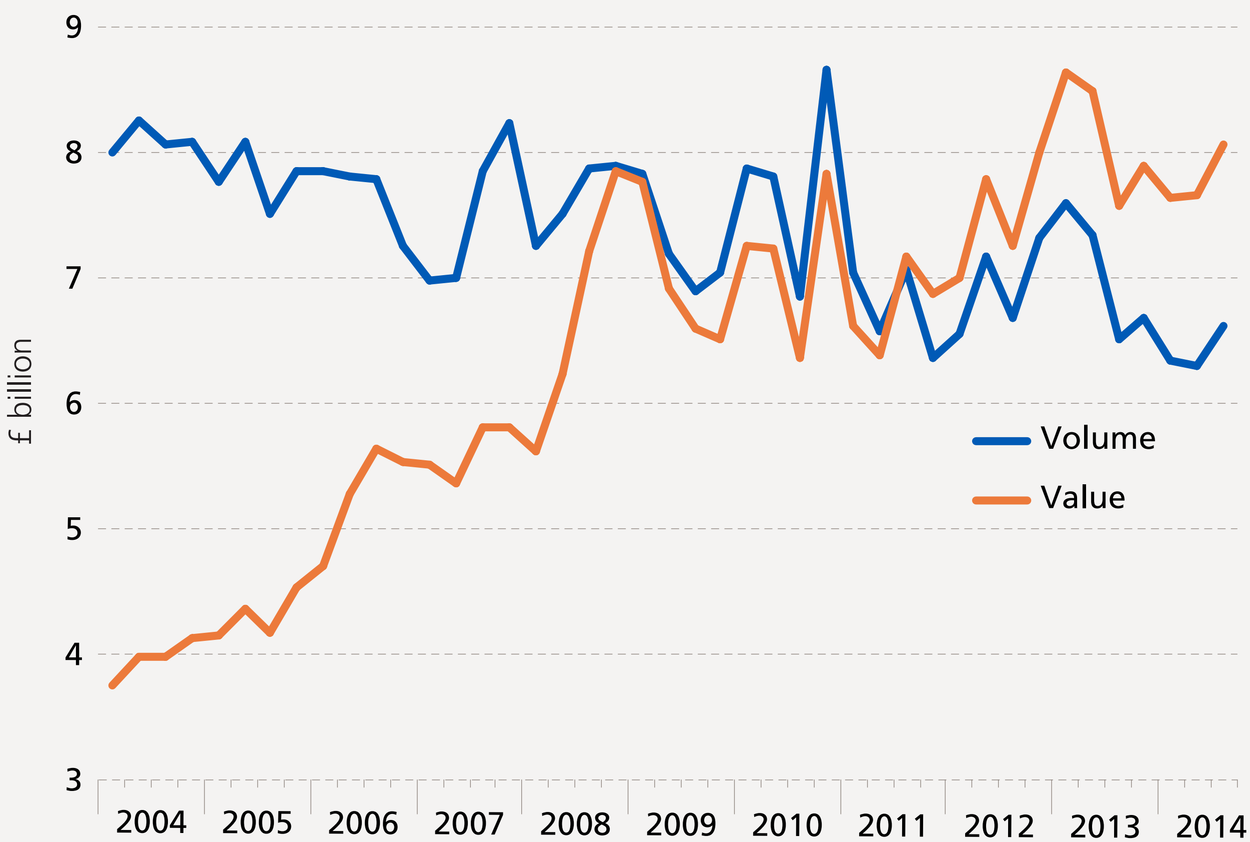
Figure 5.1 confirms the sustained pressure energy customers have been under. The volume of household expenditure on electricity and gas was steady from 1997 to 2008 and has declined since then, and yet the value of spending has risen sharply, more than doubling since 2004. Rising energy efficiency contributes to these trends but in general the story has been one of people spending far more and getting less. A sudden collapse in oil prices means the outlook for electricity bills now looks very different. Yet after so many years of rising prices, concern is unlikely to dissipate quickly.

Box 11: Rising energy bills make keeping warm a challenge

One of our locations in the south east of England advised Alan, 82, when he became concerned about his energy bills. From one month to the next, Alan's electricity bill had risen from £90 to £132 and his gas bill had increased from £80 to £122. Alan was concerned because he and his wife were careful to economise; they did not use the central heating, only a small fire and limited hot water to one hour per day. The bureau helped them to negotiate a more affordable rate with their energy supplier.

Figure 5.1 **Spending on energy has doubled yet people are getting less**

Household spending on gas and electricity by volume and value (£billion)



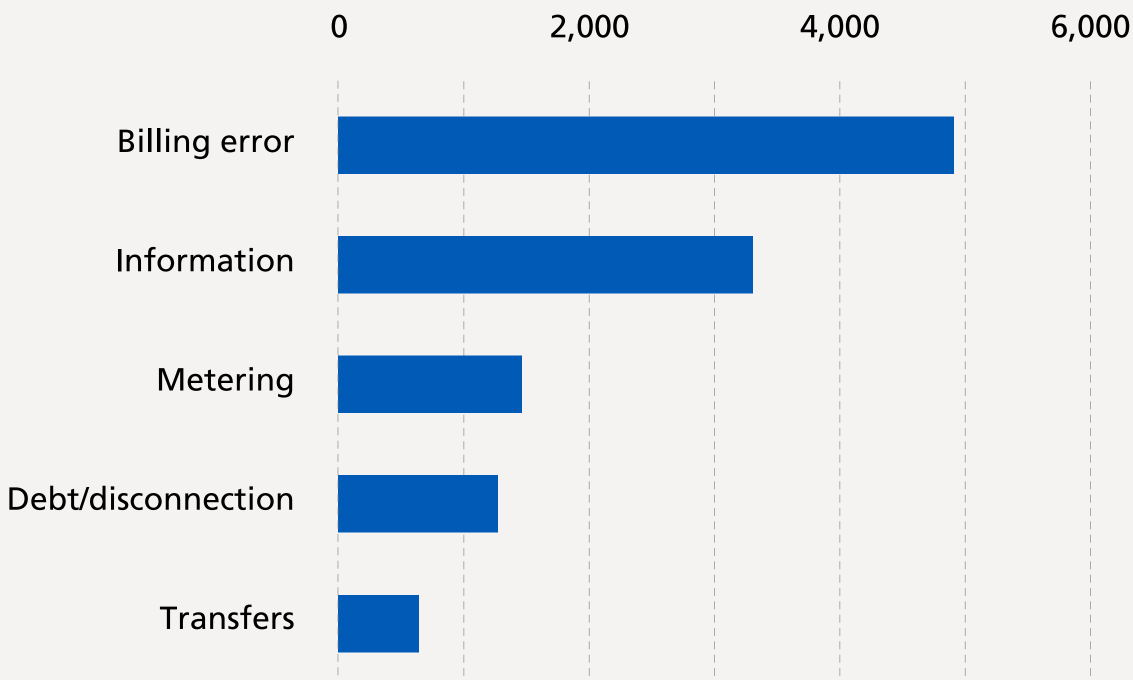
Source: Citizens Advice analysis of ONS *Consumer Trends* (Q3 2014)

Sustained interest in energy prices and pressure from consumer groups, coupled with a succession of market reviews which found ongoing, deep seated problems within the UK energy market, led Ofgem to refer the market to the Competition and Markets Authority (CMA) earlier this year. Our own data supports the view that something is wrong in our energy market. Of all regulated industries, energy is the most commonly cited on our consumer helpline. Figure 5.2 shows the number of calls about energy we receive each quarter broken down by category. Billing errors are the most common category of energy enquiry by far, attracting 4,900 calls a quarter or 54 a day.[36]

36 Citizens Advice analysis of calls to the Citizens Advice consumer service.

Figure 5.2 **Billing errors are the top energy issue we see at Citizens Advice**

Breakdown of calls to the Citizens Advice consumer service in relation to energy by type of issue (quarter 3 2014/15)



Source: Citizens Advice consumer service energy data

Stepping back, three more general characteristics of the energy market suggest that the CMA's attention is merited.

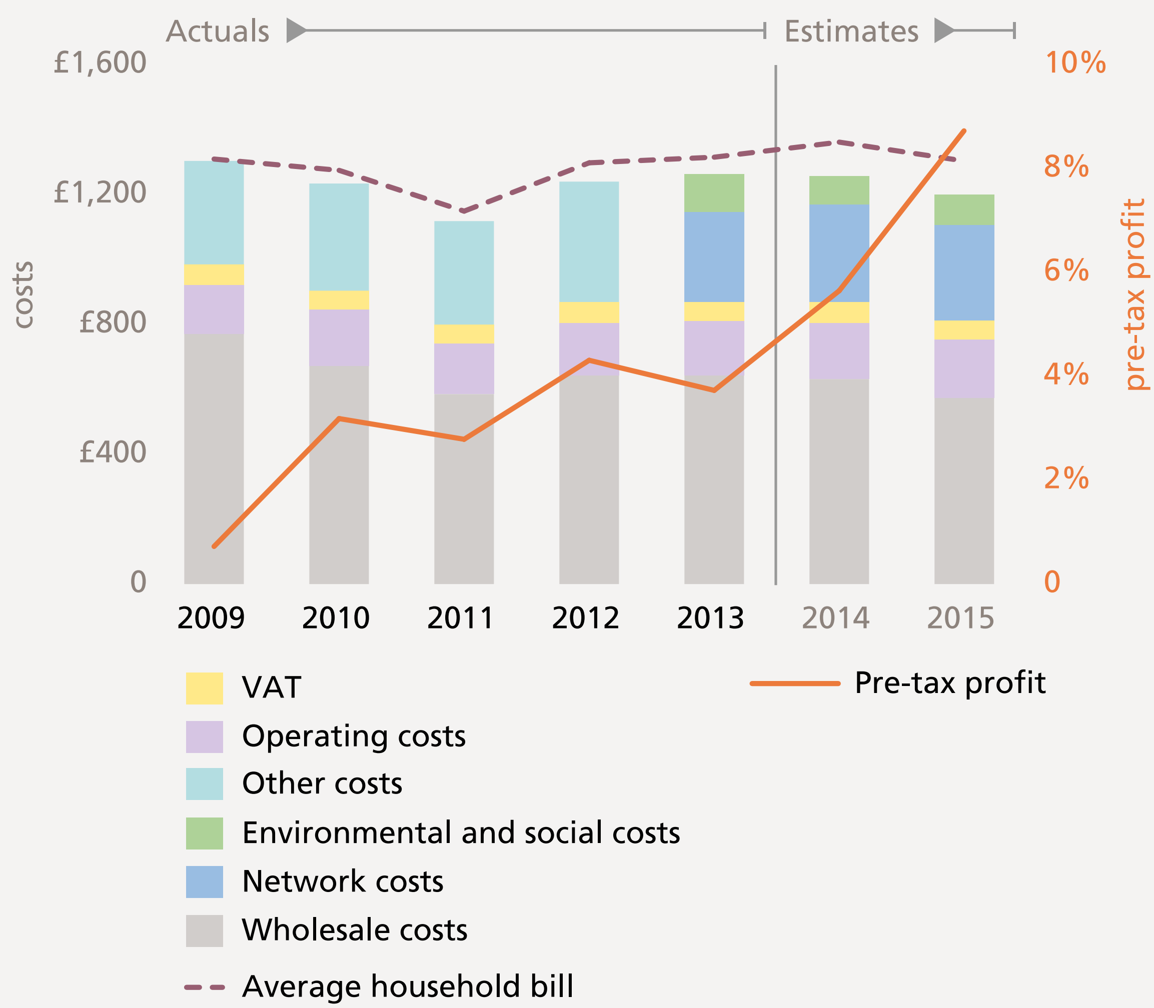
First, the continued dominance of the big six gives reason to worry about the way the energy market is serving consumers. The six large firms that emerged from Britain's pre-liberalisation regional monopolies continue to dominate our electricity and gas markets: they supply 94 per cent of domestic gas and electricity and own 70 per cent of all energy generation, with market shares even higher in their respective incumbent regions.[37] In so concentrated a market, the vertical integration of gas generation and supply in big six providers has attracted particular criticism. While offering some advantages to consumers in terms of stability and efficiency, the way large suppliers dominate both gas generation and retail makes it hard for small suppliers to access wholesale gas at volume, and at a good enough price, to compete for customers.

37 Ofgem *State of the Market Assessment* (2014)

Second, rising profit levels among big suppliers raise the question of whether monopoly positions are being exploited. The key driver behind inflation busting increases in energy bills in recent years has been rising wholesale energy costs, but allegations of profiteering have also been levelled at energy suppliers. Latest data from Ofgem suggests the profit suppliers make from each dual fuel customer grew from 1 per cent of the total bill (£12) in 2009 to 3 per cent (£49) in 2013 to

Figure 5.3 **Profit margins among energy suppliers have been rising**

Ofgem's forecast breakdown of the average dual fuel bill to October 2015



Source: Citizens Advice analysis of Ofgem Supply Market Indicator November 2014

6 per cent (£77) in 2014.[38] This is now forecast to rise to 9 per cent of the total bill (£114) in 2015. While such forecasts should be treated with caution, these levels of profit, extracted from household bills that are essentially unavoidable, sit uncomfortably against the ongoing squeeze on household incomes.

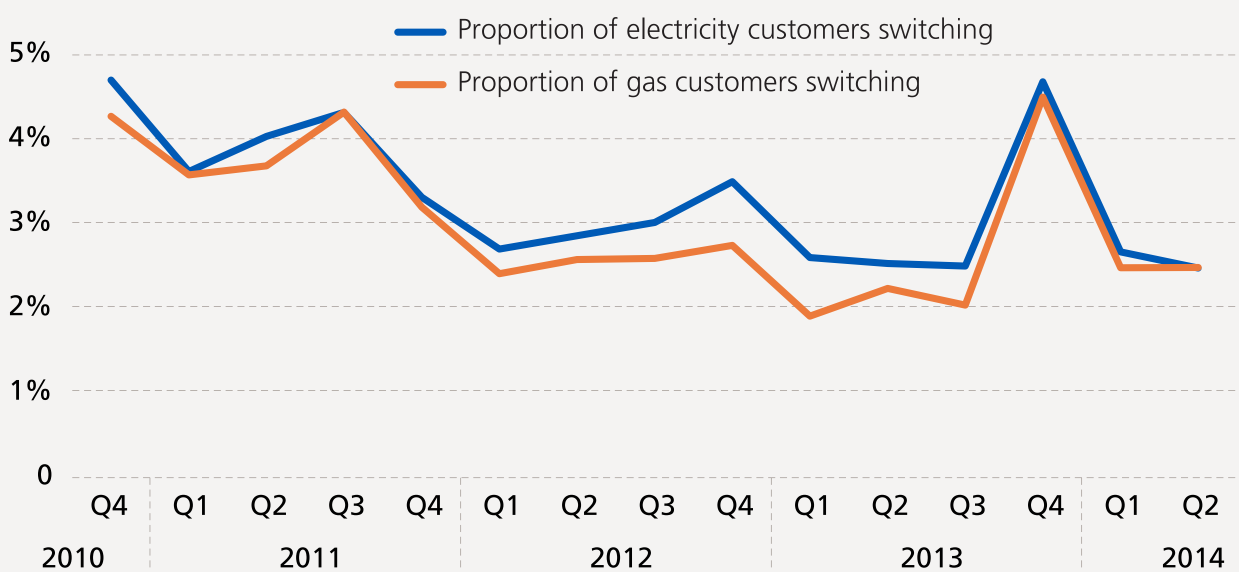
Third, Britain's energy market enjoys extremely low levels of consumer engagement and trust. The proportion of people who switch their gas or electricity provider each year remains disappointing. Aside from a short spike in late 2013, after extensive media coverage of price increases, switching rates between suppliers have been on a downward trajectory. Latest data suggest that just 3 per cent of electricity customers reported having switched their supplier in the last quarter, with similar figures in gas.[39] These low levels of switching suggest little pressure on suppliers to improve service or price to retain customers, erecting another barrier to new suppliers hoping to enter the market.

38 Ofgem Supply Market Indicator (January 2015)

39 DECC Quarterly domestic switching statistics (December 2015)

Figure 5.4 **Energy customers rarely switch suppliers**

% of electricity and gas customers switching each quarter



Source: Citizens Advice analysis of DECC's Quarterly domestic switching statistics (December 2015)

Low levels of switching have a direct impact on household finances, stretching budgets even thinner than is necessary. While switching is not a panacea for wider ills in the energy market, individuals can save up to £100 a year by switching even as prices stand today, and low levels of churn also reduce incentives to cut costs and keep down prices overall. Ofgem finds that sticky customers are charged more than their more active counterparts, meaning money is being wasted at a time when households can least afford these losses.[40] Steps to encourage switching, from raising trust in the market to reducing the complexity and number of tariffs to making switching simpler and easier, could reduce pressure on budgets just as much as reversing particular welfare cuts.

Prepayment meters

As well as these broad concerns about the functioning of the energy market, our work reveals day to day problems that don't just squeeze family budgets, but also hit lower income households hardest. Around 10.8 million people live in homes with a prepayment meter and this number is rising by over 2,000 each working day.[41] Prepayment meters are often installed by energy suppliers as a means to recover debt when the household has fallen behind with their payments, although a growing number are chosen by customers as a way to budget more easily and avoid the risk of debt.

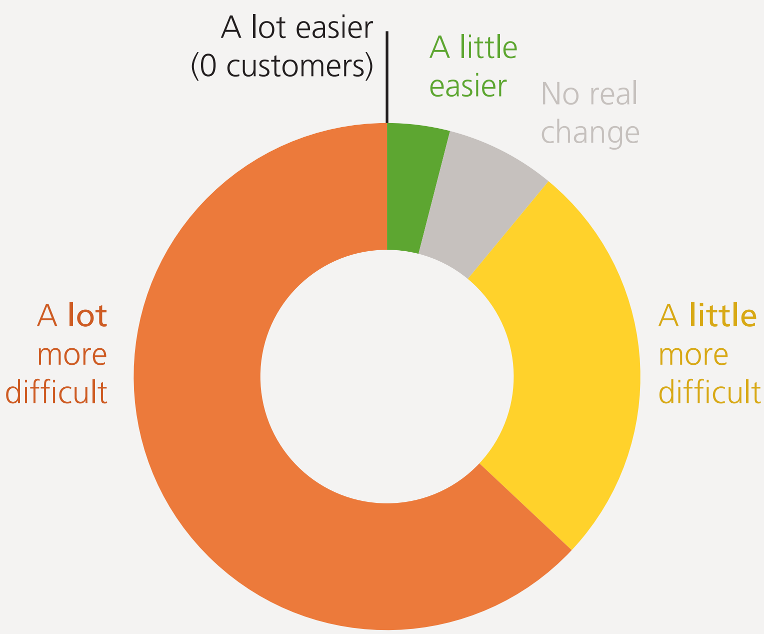
The problems people experience with prepay meters are longstanding and well-documented but they have new relevance in the context outlined in Chapter 1. As we have seen, today's energy market, unlike other markets such as telecoms, is currently characterised by unfamiliarly high bills. These price trends have fallen hardest on lower income households who spend proportionately more of their income on essentials. Against this backdrop, the premium paid by pre-pay customers is even more egregious. Prepay customers pay on average £80 more per year than those paying by direct debit and often receive a substandard service. With prepay customers more likely to be on low incomes, this amplifies the distributional effect of squeezed incomes, skewing household spending power even further.

40 *State of the Market Assessment*,Ofgem, Office of Fair Trading and Competition and Markets Authority (2014)

41 Ofgem *Domestic Suppliers' Social Obligations: 2013 annual report* (2014)

Figure 5.5 **Prepay customers are finding it harder to keep meters topped up**

Results of a survey asking prepay customers whether they were finding it more or less difficult to keep their meter topped up compared to the previous year



Source: Findings of an online survey or prepayment meter users carried out by Citizens Advice in November 2013

We also know that, while affordability is not an issue unique to prepayment customers, its impacts among this group are less well monitored and governed. Credit meter customers are safeguarded from disconnection by a number of stringent protections while prepay customers regularly self-disconnect with little or no oversight. Fifteen per cent of prepay customers disconnected themselves in the last year, of whom nearly half (47 per cent) regularly disconnected for at least an hour.[42] This rise is likely a direct result of increased pressure on household budgets; 63 per cent of participants taking part in research by Citizens Advice told us that they were finding it a lot more difficult to find the money to keep their prepayment meter topped up compared to a year ago. Against a backdrop of squeezed incomes, the growing number of customers not protected from disconnection is troubling.

Finally, the way energy companies deal with customer debts is more problematic in today's pressured economic environment. Many prepay customers owe debts to their energy provider which are deducted automatically from a proportion of each top-up they add to their meter. The standard practice of suppliers is to take these payments evenly throughout the year, in both winter and summer. This makes little sense when prepay customers spend twice as much each week topping up their gas meters in winter, and indeed our polling shows 15 per cent

42 Citizens Advice *Topping up or dropping out* (2014)

of prepay customers disconnected themselves this winter. Repayments would be better focused on summer months when people have more breathing room and we have called on suppliers to do this, smoothing costs over the year.

The failures of prepay products cause material and entirely unnecessary harm.

The burdens of prepay customers may sound like details, but at a time of hard-pressed budgets they cause material and entirely unnecessary harm, amplifying the risk that poorer households cut off their own heating in the coldest months of the year. This comes on top of the well-documented customer service failings experienced by prepay customers: the limited number of ways to top up, which lag far behind products such as prepay mobile phones; the diminished choice over tariffs; and the problems we see with faulty keys or meters, which regularly result in gas or electricity being cut off. At a time when many customers would like better ways to manage their budgets, the lack of an attractive prepay energy product doesn't just hit those on low incomes. Our Fair Play for Pre-pay campaign is calling for a better price and better service for pre-pay meter customers so that all energy customers have an attractive pre-pay option.[43]

Smart meters

One lesson from prepay meters is that particular technologies do not automatically benefit energy customers in the way we might hope. The energy market is now forecast to see rapid uptake of smart meters, raising the question of how to ensure this new technology works to consumers' benefit. In theory smart meters are expected to mean more accurate bills, no longer based on estimates of usage; an in-home energy display, helping people to track their usage and budget accordingly; and new tariffs that charge less for electricity in off-peak times. However, unless firms, regulators and policy makers seize the opportunity and deliver a programme of action that will make smart meters a cornerstone of a fairer, more efficient market, consumers will pay the cost but not feel the benefit of billions of pounds of investment.

43 For more details see: http://www.citizensadvice.org.uk/fairprepay

This is particularly important because prepay customers could have the most to gain from smart meters. Suppliers will no longer have to visit a property to switch a customer to a credit meter, making the process far more time and cost efficient. Since all smart meters will have prepay functionality built in, the additional running cost for prepay customers should also fall or be eliminated. There should also be reduced costs from misplaced payments, making the gap between prepay and credit customers' bills even harder to defend. These price advantages should come along with customer service improvements, from new ways to top up to a wider range of tariffs. This is not an inevitable outcome and thought is needed to ensure consumers realise these benefits.

Conclusion

With household energy prices more than doubling since 2005, it will take time before pressure eases. A recent collapse in the oil price may now help reduce electricity bills in particular, but this is likely merely to reframe the debate, focusing attention on whether these falls are being passed on. In this context, the CMA review of the energy market is as relevant as ever, and remains an opportunity to take a broad look at the market and put in place the wide-ranging reforms that are needed. In our work we see the human cost of energy market failure as people pay more than they need to and services like prepay meters fail to deliver what people want. The forthcoming roll-out of smart meters could improve price and customer experience, particularly for lower income households, but the lesson from prepay is that these gains won't happen automatically.

Conclusion

2015 is set to be an economically unusual year for households across Britain. On the one hand, an army of pressures is retreating on several fronts. Inflation has fallen to an historic low, interest rates remain at rock bottom and, in the labour market, earnings are at last picking up while employment remains strong. On the other hand, a range of uncomfortable facts complicate any feel good factor. Working-age welfare faces sustained cuts, pulling down household income growth, particularly for poorer households. Meanwhile, pervasive low pay and insecurity fuel an argument that the recovery isn't being broadly shared.

Beyond these debates about growth and incomes another aspect of economic wellbeing receives too little attention. This is the spending side of the picture: do consumer markets help us spend our money as we want, or do failures in these markets spread incomes even thinner than necessary? When it comes to people's economic well-being, this is not a peripheral issue. At Citizens Advice we regularly see clients who have lost hundreds of pounds in needless debt interest payments, on products they didn't intend to buy or services from which they cannot exit. These sudden blows, not uncommonly worth 10 to 20 per cent of monthly income, stretch household budgets just as much as falling wages or state support. In many cases their frustrations are felt even more sharply.

This is a timely moment to address the spending side of the picture. For one thing, the UK government's official growth forecasts are predicated on a vast and growing stock of household debt, an uncomfortable share of which sits with low income and highly-leveraged households. It matters enormously how these debt products and practices are structured. In markets such as energy, a decade of soaring prices has caused intense pressure, making it even less acceptable that some consumers still pay an unnecessary premium. Elsewhere, from online shopping to mobile phones, rapid innovation is bringing new risks.

In this context, this survey of key consumer markets has highlighted some of the major challenges that confront consumers in 2015:

Britain's stock of **household debt** is heading toward £2.43 trillion, a colossal figure that can obscure the hard reality of what debt means for households. We see first hand the issues that emerge around the margins of a consumer credit market in a world of historically high, rising and uneven household debt. Welcome action on payday loans and credit brokers shows how regulators can act to protect consumers. Now vigilance is needed to stop other problems. 53,000 logbook loans were taken out last year, marking the return of a Victorian debt contract that should have been consigned to history. Meanwhile the self-employed, young people and lone parents appear particularly exposed to high volumes of debt, often spread across many products. In 2015 we are conducting a major new program of work exploring households' routes out of debt.

In **housing**, the number of private renters has doubled in a decade and an outdated patchwork of tenant protections is breaking at the seams. 117,000 problems with a private rental sector property are now brought to us every year. While some countries and regions in Britain are acting to protect renters better, most are still not afforded the most basic protections; across much of Britain, it remains legal to evict a tenant for requesting repairs to the property; despite progress in some countries or local areas, the vast majority of landlords remain unlicensed, making them less tightly governed than taxi drivers; and few can expect the rights to repairs or refunds that are a basic premise of being a consumer in other markets.

In a number of important **consumer goods** markets, rapid innovation risks leaving consumer protection in the past. Peer-to-peer trading is growing fast yet most traditional consumer rights do not apply when buying from individuals, a fact only a minority of consumers understand. Already we deal with almost 9,000 problems a year related to these services. Meanwhile, mobile phones have become a new utility, at saturation point in terms of their use and essential to modern life. Yet the mobile market shows a worrying volume of problems. Throughout this year we will be exploring in more detail how consumers can be protected in these different areas of the new economy.

Finally, in **energy**, a collapse in oil prices should at last ease a decade of pressure on household energy bills. But with 94 per cent of customers buying their energy from one of the big six suppliers there remain valid concerns about concentration in the energy market.[44] The market's failings are clear in the poor experience of pre-pay meter customers. And these failings, from the prepay price premium to the growing level of self-disconnections, are all the more egregious when household incomes are squeezed. These prominent customer failures teach us a useful lesson as the market prepares for rapid uptake of smart metres: new technologies in the energy market do not benefit consumers automatically.

Amidst these challenges, there is one important note of optimism: many of the biggest problems described in this report would not cost significant money to solve. In a fiscal squeeze, assertive action on behalf of consumers should become a more central agent of social change. Decisive, smart and proportionate action from policymakers, regulators and companies can make people's incomes go further. As we head into 2015, our evidence suggests the time may be ripe for new efforts of this kind.

44 Ofgem, Office of Fair Trading and Competition and Markets Authority *State of the Market Assessment*, (2014)

Our aims

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives

Our principles

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. We value diversity, promote equality and challenge discrimination.

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