

Left Out

How to tackle digital exclusion and reduce the poverty premium

August 2023

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About the Centre for Social Justice

Established in 2004, the Centre for Social Justice is an independent think-tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. The CSJ's vision is to give people in the UK who are experiencing the worst multiple disadvantages and injustice every possible opportunity to reach their full potential.

The majority of the CSJ's work is organised around five "pathways to poverty", first identified in our ground-breaking 2007 report, Breakthrough Britain. These are: educational failure; family breakdown; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

Since its inception, the CSJ has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in Government thinking and policy. For instance, in March 2013, the CSJ report It Happens Here shone a light on the horrific reality of human trafficking and modern slavery in the UK. As a direct result of this report, the Government passed the Modern Slavery Act 2015, one of the first pieces of legislation in the world to address slavery and trafficking in the 21st century.

Our research is informed by experts including prominent academics, practitioners and policy-makers. We also draw upon our CSJ Alliance, a unique group of charities, social enterprises and other grass-roots organisations that have a proven track-record of reversing social breakdown across the UK.

The social challenges facing Britain remain serious. In 2022 and beyond, we will continue to advance the cause of social justice so that more people can continue to fulfil their potential.

Acknowledgements

The CSJ would like to extend our thanks to the many individuals and organisations who shared their time, expertise, evidence, and feedback in the preparation of this report. This includes (but is not limited to): CleanSlate, Lifeshare, Old Fire Station, Zink, Loughborough Wellbeing Centre, Rochdale Borough Council, and the Virgin Money Foundation



We would like to give special thanks to Virgin Money, our partner who made this research possible.

Disclaimer: the views and recommendations in this report are those of the CSJ and do not necessarily represent those of the individuals or organisations mentioned above.

Foreword

Each year, millions of people pay more to be poor, including nearly a fifth of households in my constituency of Hull West and Hessle. Paying on average £459 extra a year, nearly £6 million pounds is lost in my constituency from families who desperately need the extra pounds in their pockets. That is the unfair nature of the poverty premium which sees vulnerable families pay over the odds for basic goods and services, including credit, insurance, and other essential products.

Informed by the work of the Centre for Social Justice and Fair By Design, tackling these unfair costs - which are often hidden from view - is a core part of my work as a member of the Treasury Select Committee. Mostly recently, that has taken the form of amendments laid to the Financial Services and Markets Bill to raise the status of financial inclusion in regulation.

As the CSJ shows in this report, it is not only limited financial resources that exclude people from accessing the cheapest goods and services. The transformation of our daily lives by the internet has meant that those unable to get online or take advantage of their connection are left out.

This report shatters the belief that digital exclusion and limited “digital literacy” is an almost entirely generational issue and that as time advances everyone will become savvy and connected. Rather, a significant proportion of those who are digitally excluded are of working age; this rises significantly when considering those on low incomes.

This has consequences beyond consumer services. Since the Covid pandemic, there has been a substantial shift to remote working. While I recognise the benefits it offers in bringing employment opportunities to areas outside the big conurbations and which I have been championing in my own city through the ‘Work Hull, Work Happy’ initiative, we must remain aware that without internet access, the playing field remains tilted.

Universal Credit too assumes claimants to have access to the internet to complete their work journals and search for employment. As the report makes clear, many of those working age people who lack internet access at home are unemployed and so need that connection to avoid sanction.

That is why as society becomes increasingly geared towards a presumption of universal internet access, this report challenges widely held assumptions about those people who cannot participate in the new digital world. But without action, to tackle the three pillars of digital exclusion identified in this report: a lack of access to digital devices, no or limited connection to the internet, and digital capability, these vulnerable people will be left behind and their disadvantage entrenched.

I believe this report contains concrete suggestions on how this challenge might be tackled. It is an important contribution, and I would urge all those involved in this area to take note.



Emma Hardy MP

MP for Hull West and Hessle

Foreword

The digital revolution has done much to enhance people's lives, from enabling them to keep in touch with friends and loved ones, to being able to better monitor and manage their finances at a click of a button.

However, those who do not have access to suitable devices or data, or lack digital capability, are experiencing significant detriment. They are unable to use many of the tools and services that help their money go further, including price comparison websites, benefits and grants calculators, and online-only offers.

This report, supported by Virgin Money, reveals that levels of digital exclusion are at 11% in the UK, higher than what had previously been estimated by Ofcom. This is felt most keenly in Scotland, Northern Ireland, North East England, and Yorkshire and the Humber – many areas where we have a significant footprint.

It is unsurprising that those under the greatest financial pressure are more likely to struggle with digital access, with one in five of those on the lowest incomes digitally excluded. This is resulting in many paying a poverty premium for not being online. For example, home insurance could cost 46 per cent more when purchased offline, while a SIM only phone contract could cost £192 more. Food, train travel and car insurance are also areas where consumers pay considerably more offline.

As a bank with a purpose of Making You Happier About Money and an ambition to tackle the poverty premium – the extra cost that 14 million people on low incomes pay to access essential goods and services - we believe that we have a role to play in improving digital inclusion. That is why we have been working closely with Good Things Foundation, a charity with a mission 'to fix the digital divide – for good', since November last year.

We were the first bank to join the Foundation's programme to provide free 20GB SIM cards in our stores to those in data poverty, and we have donated mobile devices to their Device Bank to help people get access to the hardware they need to get online.

We are also aware that the barrier for some is a lack of digital confidence and that's why we offer digital know-how training in store to help customers to bank online. In addition, the Virgin Money Foundation fund neighbourhood based charities who provide digital access and deliver digital skills training in local communities.

Digital exclusion and the poverty premium are issues that cannot be tackled by a few organisations alone, and we strongly support the policy recommendations that the Centre for Social Justice suggest in this report.

We support the CSJ's call for the Government to put digital inclusion at the heart of its Digital Strategy. Only by doing this can the Strategy deliver for all people and make a meaningful impact for those that need it most.

We also fully back the recommendation to re-purpose the Government's existing Financial Inclusion Policy Forum to bring together key stakeholders to tackle the poverty premium collectively.

We hope that this report will stir policymakers and businesses in more sectors into action and deliver tangible action to improve digital inclusion and tackle the poverty premium to help those in the greatest financial difficulty.



David Duffy
CEO of Virgin Money

Executive Summary

In November 2022, we released *Over the Odds* where we investigated the scale of the poverty premium, a phenomena where those on the lowest incomes pay more for basic goods and services. We estimated that nearly seven million people in Great Britain were paying multiple poverty premiums and that this cost them about £478 a year.¹

Throughout that work a consistent theme emerged, namely the barrier presented by digital exclusion to accessing a wider and cheaper range of goods and services. Limited access to the internet meant that consumers could not access the most suitable products for them and thus risked paying more.

Yet this appears to be the reality for millions. Our new analysis of the UK Household Longitudinal Survey suggests that 11 per cent of households cannot access the internet at home, higher than figures released by Ofcom, the regulator. This is particularly true for those on the lowest incomes.

We explode the myth that digital exclusion is an issue solely related to the elderly. We show that while over 65s make up the majority of digitally excluded people, a significant minority – 29 per cent – are of working age. This is particularly true of those on low incomes, where 42 per cent are of working age.

Without the internet, consumers are more likely to pay higher prices. Our research shows that consumers could pay 25 per cent more for an illustrative series of transactions, including for insurance, phone contracts, and food.

But the consequences of digital exclusion are not confined solely to accessing goods and services. Significantly, working age consumers without the internet are considerably more likely to be unemployed and so miss out on the benefits of employment yet require the internet to engage with Universal Credit. 22.1 per cent of working age people without access to the internet at home are unemployed compared to 3.8 per cent nationally. Additionally, consumers with limited digital skills are more likely to be on low incomes.²

To remedy this, the government needs to refocus its eye on efforts to reduce digital exclusion. We accept that many consumers don't want to use the internet, and that some won't change their minds. Indeed, there is precedent for this in public attitudes towards previous technological advances, namely the landline telephone, where ownership peaked at 95 per cent.³

However, as society advances technologically, these consumers will become a smaller proportion of the total population. The evidence we presented above continues to suggest that there are still many households who could be encouraged onto the internet and to improve their skills – particularly those who are on low incomes or of working age for whom the rewards of digital access may be greater.

We propose the Government launch a rebooted plan for digital inclusion to return inclusion to the heart of its digital strategy. The principles set out in the Government's 2014 Digital Inclusion Strategy continue to resonate with the challenges we have identified, namely access, skills, motivation, and trust, but momentum has been lost. Indeed – the performance platform cited in the strategy has been moved to the National Archives.⁴

We provide a series of recommendations to build a rebooted strategy that addresses the three key components of digital exclusion: the barriers to devices and data and the need for improved digital capability.

1 Centre for Social Justice, *Over the Odds: Next steps for dismantling the poverty premium*, November 2022.

2 Lloyds Banking Group, *2022 Consumer Digital Index*, 3rd November 2022.

3 Centre for Economics and Business Research, *The economic impact of digital inclusion in the UK*, July 2022.

4 Data.gov.uk, *Historical Performance Platform*, March 2021.

To improve access to devices, we recommend government support initiatives, such as the National Device Bank, by directing consumers to where they can donate their unused devices, donating its own unused devices, and growing the refurbished device market by expanding the right to repair to include mobile phones and laptops. A growth in device donations and expanded refurbished device market represent market friendly interventions to support those consumers who lack devices access them.

To tackle limited data access for the lowest income consumers, we propose new measures to make consumers aware of social tariffs and encourage their uptake. We recommend that the Department for Work and Pensions consistently advertise social tariffs to eligible Universal Credit recipients. We further recommend reducing VAT on social tariffs pending a guarantee from providers that savings will be passed to consumers. We also recommend asking providers to improve their social tariff speeds to match average speeds and take steps to help consumers compare commercial and social speeds to demonstrate their comparability.

Finally, to improve digital skills, we recommend the Department for Education commits funding for a long-term digital skills programme targeted at unemployed people and those with limited digital skills. At the cost of £140 million, this programme would support a further 508,000 people to access digital skills. The could be funded from the forthcoming expansion of the Dormant Assets Scheme – which is estimated to release £641 million from the insurance, pensions, and securities sector.⁵

In an increasingly digital world, reducing digital exclusion is necessary to ensure as many consumers as possible can access all the benefits of technology, including communicating with friends and family, enjoying online entertainment, and accessing cheaper goods and services. However, decreasing digital exclusion alone will not end the poverty premium. As we noted in *Over the Odds*, instances remain where the poverty premium is a result of market mechanisms, such as risk pricing. We believe that businesses working with government are best placed to overcome these issues and therefore echo our previous recommendations and recommend that the Financial Inclusion Policy Forum should use its convening power to focus on reducing the poverty premium, including where it is created by digital exclusion.

⁵ Financial Conduct Authority, [Expansion of the Dormant Assets Scheme, CP22/9](#), May 2022.

Introduction

In November 2022, we released *Over the Odds* where we investigated the scale of the poverty premium – a phenomena where those on the lowest incomes pay more for basic goods and services. We estimated that nearly seven million people in Great Britain were paying multiple poverty premiums and that this was set to cost them about £478 a year.⁶

At the time of writing, inflation stood at 11 per cent and the average household energy bill had risen to £2,500. While both of these indicators have moderately improved, inflation remains high, and the country can expect further rises to the Bank of England's base rate.

During a time of heightened economic stress, consumers are taking steps to reduce their outgoings by cutting costs shopping around for cheaper goods and services.⁷ In *Over the Odds*, we found that ease of market access was important for identifying and achieving the best deals but that many consumers found themselves digitally excluded and therefore unable to shop around easily.

Box 1: Methodology

Analysis:

To understand the state of digital exclusion in the UK, we conducted a new analysis of the UK Household Longitudinal Survey (Understanding Society) using data from wave 12. Wave 12 was carried out between January 2020 and May 2022 and contains 16,855 households. Where individuals are referred to, we have linked the household level data to data of individuals living in those households at the time the survey was collected. As in any survey, the data are not complete. In wave 12, 2,567 individuals in 791 households completed the household grid but did not complete the household survey and so these were filtered out where appropriate. The data are weighted.⁸

Costings:

One key reason for the shift to buying products and services online is that it can be more cost-effective compared to purchasing them from physical retail outlets. For this report, we wanted to understand how much more expensive purchasing goods and services offline can be than if they were acquired online. To do this, we provide an illustrative example of a number of transactions across some basic goods and services. These include different forms of insurance, phone contracts, food, and train travel. Our illustrative example can be found in chapter 2 and further details can be found in appendix 1.

We now delve more deeply into that finding. In this paper, we carry out a fuller investigation into the nature and scale of digital exclusion using the UK Household Longitudinal Survey (Understanding Society) and qualitative evidence gathered with the support of small charities. We also show some of the increased costs faced by digitally excluded consumers. To do this, we compare the costs of an illustrative series of transactions for basic goods and services purchased online and offline. Finally, we make a number of recommendations to reduce digital exclusion by targeting the constituent parts of digital exclusion: the lack of a device, a shortage of data, and limited capability.

6 Centre for Social Justice, *Over the Odds: Next steps for dismantling the poverty premium*, November 2022.

7 Kantar, *UK grocery price inflation dips but too soon to call the peak*, April 2023; YouGov, *The YouGov Cost of Living Segmentation*, February 2023.

8 University of Essex, Institute for Social and Economic Research. (2022). Understanding Society: Waves 1-12, 2009-2021 and Harmonised BHPS: Waves 1-18, 1991-2009. [data collection]. 17th Edition. UK Data Service. SN: 6614, <http://doi.org/10.5255/UKDA-SN-6614-18>.

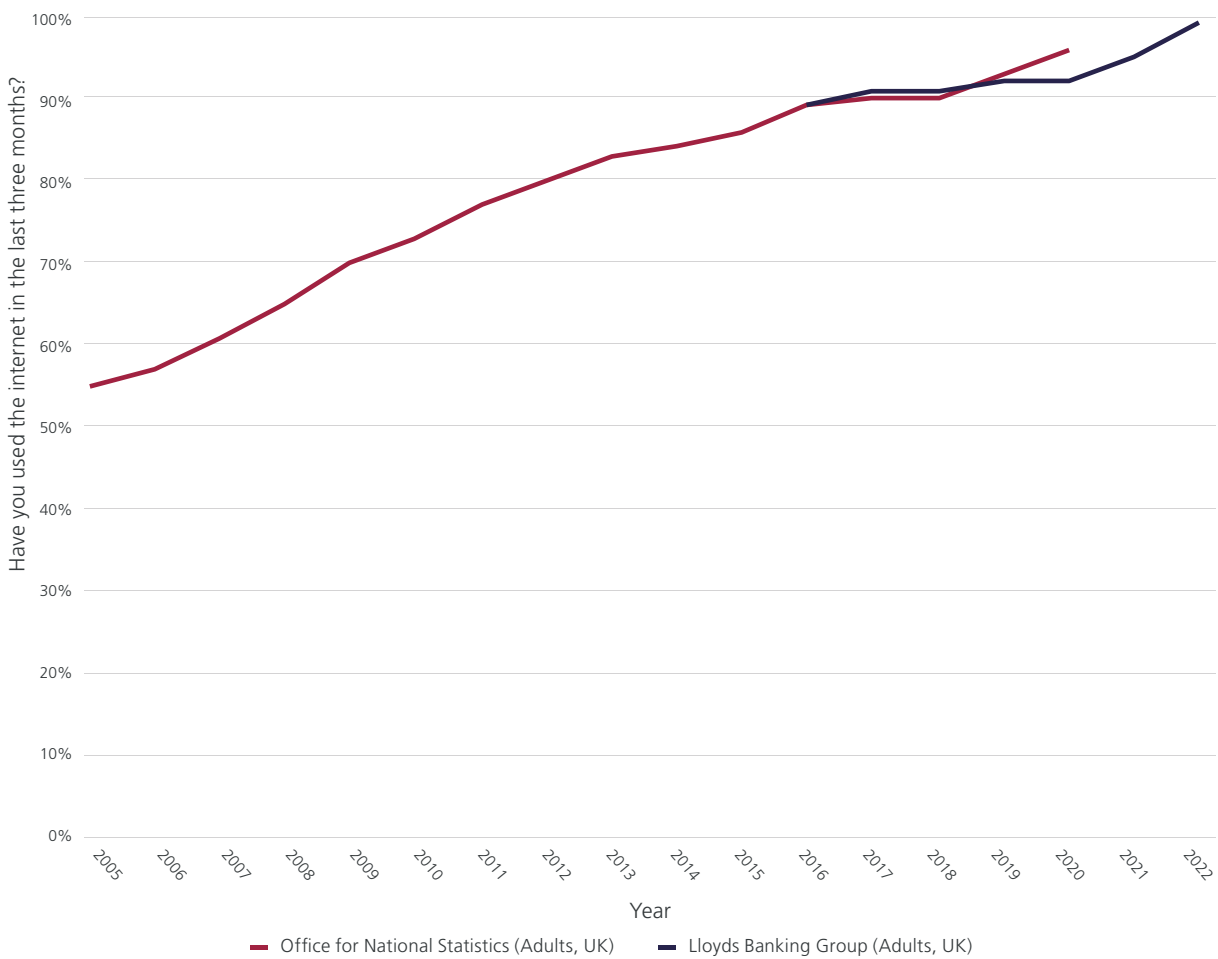
Chapter One: State of the Nation

The digital revolution has affected everyday life in unforeseen ways. Easy access to the internet has allowed consumers to live digital lives, share their experiences online and stay connected to their families no matter where they are in the world. It also allows them to benefit economically. Online trading allows businesses to reach ever larger markets and compete for custom. Importantly, this market access benefits the consumer by improving choice and driving down prices through competition. It also allows consumers to compare prices and thus avoid paying poverty premiums.

Today, the internet is near ubiquitous but digital exclusion remains. Consumers can only realise the full benefits of the internet if they possess: devices, data, and capability. Without devices, the question of data to use the internet matters little, and without the capability to realise the possibilities presented by the device and the data then both of these features serve a limited function.

Surveys that employ the ONS definition of 'online' (having used the internet at least once in the last three months) suggests that almost the entire population has access to the internet. As the figure below shows, the Office for National Statistics suggests that the number of adults in Great Britain that have accessed the internet increased from 55 per cent in 2005 to 96 per cent in 2020.⁹ Following on from the ONS, the Lloyds 2022 Consumer Digital Index suggests that this figure now stands at 99 per cent.¹⁰

Figure 1: Percentage of adults who have accessed the internet in the last three months



Source: Office for National Statistics and Lloyds Banking Group

⁹ Office for National Statistics, *Exploring the UK's Digital Divide*, 4th March 2019.

¹⁰ Lloyds Banking Group, *2022 Consumer Digital Index*, 3rd November 2022.

However, the ONS definition of digital exclusion is imperfect. Having access to the internet at least once in the last three months sets a very low bar for being 'online'. This clouds a more complicated picture and hides the difference between total exclusion and consistent access to the internet at home. It also fails to take account of digital capability and consumer's ability to achieve their goals online.

Survey evidence by Ofcom suggests that 7 per cent of households do not have access to the internet at home, meaning these consumers are unlikely to have consistent access to the internet.¹¹ However, our new analysis of the British Household Longitudinal Survey (Understanding Society) collected by the University of Essex, suggests that up to 11 per cent – equivalent to 3.1 million – households in the United Kingdom do not have access to the internet from home, almost twice the number suggested by Ofcom.¹²

These figures suggest that while most consumers can access the internet, not all of them have consistent access at home, without which accessing cheaper goods and services online is considerably harder. This lack of easy access – which is most likely to affect poorer consumers and consumers over 65 - increases their likelihood of paying more for basic goods and services.¹³

In the following pages, we outline in more detail which consumers are most likely not to have the internet at home.

Who lacks access at home?

As we have shown, when measured in a way that reflects ease of access, digital exclusion is more common than it first appears, with a considerable number of households lacking access to the internet at home. In the sections that follow, we identify the elderly and those on low incomes as the two broad groups most likely to experience digital exclusion, although they show considerable overlap.

As we show in figure 2 below, those on low incomes are almost twice as likely to say that they do not have access to the internet at home as all consumers, with 19.66 per cent of households on low incomes saying that they cannot access the internet at home. Figure 3 below charts this more clearly by showing the cumulative percentage of households with and without internet by their equivalised household income. The steeper gradient of the grey line shows that a greater proportion of households without the internet have lower equivalised monthly incomes.

Given we know that lacking the internet at home is at least in part a product of limited economic resources, it is unsurprising that our analysis in figure 4 found it to be more prevalent in less prosperous parts of the UK, including the North of England and the devolved nations. Northern Ireland has the highest proportion of households who say they cannot access the internet at home, at 18.59 per cent, followed by the North East, Yorkshire and the Humber, and Scotland. At the bottom end of the scale, the South East and East of England sit at around 7 to 8 per cent.

The evidence from household tenure reinforces analysis linking lack of internet access to household income. Almost a quarter of households which are local authority rented and just under one in five households that are rented from a housing association report not having access to the internet at home. This is compared to just 2 per cent of households which are owned with a mortgage. This strongly and unsurprisingly suggests that one group of consumers have limited access to the internet due to the costs of access.

11 Ofcom, *Adults' Media Use and Attitudes report*, March 2023.

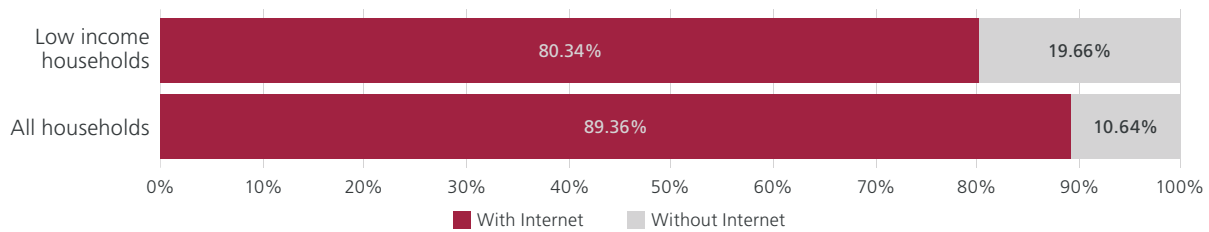
12 Ofcom, *Adults' Media Use and Attitudes report*, March 2023. The Office for National Statistics estimates that there are 28.2 million households in the UK.

13 For definitions of poverty used in this paper, please see Box 1.

The second group of consumers who lack access to the internet appear to be those who are elderly. Figure 6 below shows the age composition of those consumers who say they do not have access to the internet at home, both for all consumers as well as those who are on low incomes specifically.

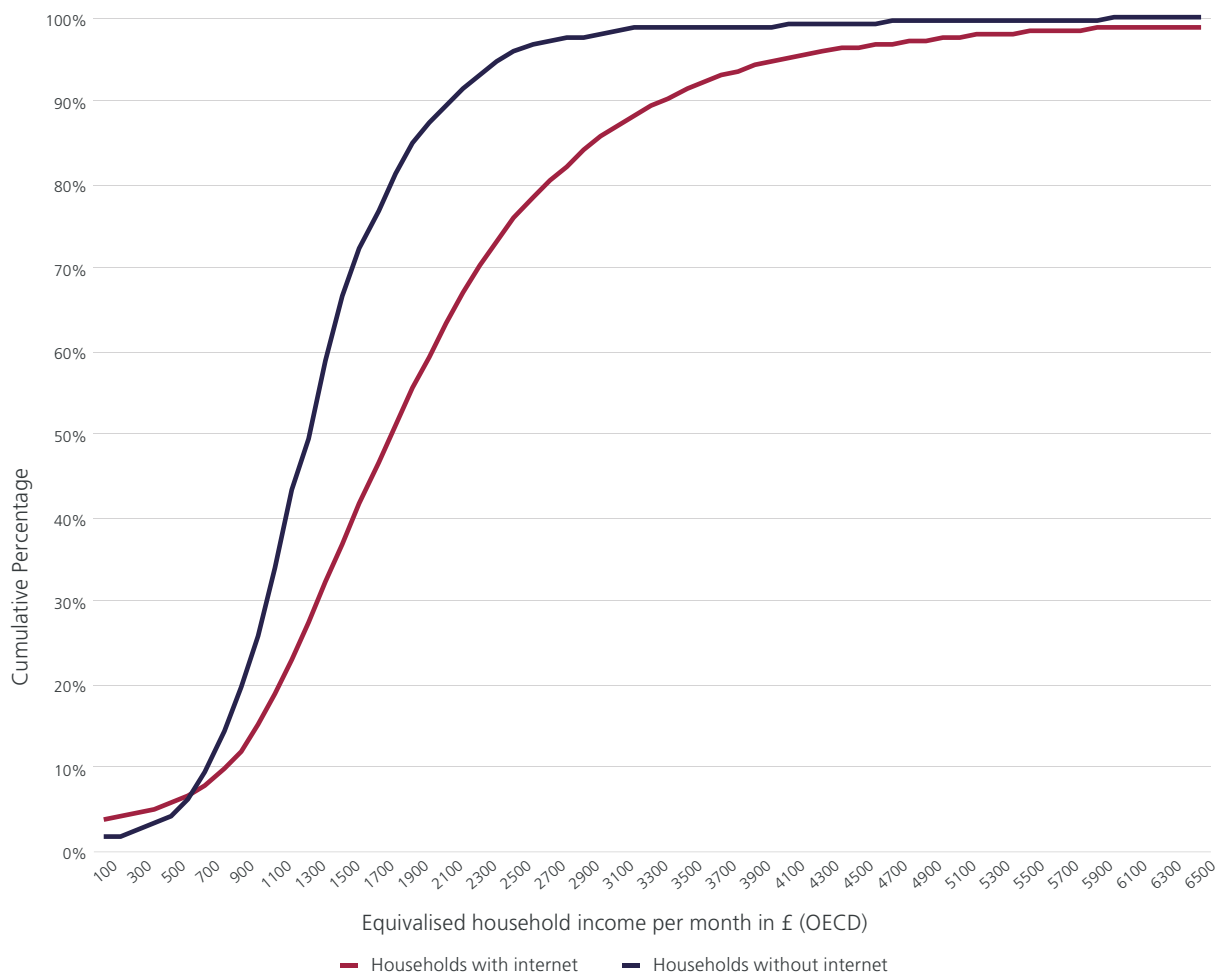
Of all consumers, those aged over 65 make up just over 70 per cent who say that they do not have access to the internet and a further 15 per cent are aged 55-64. However, of those on low incomes, less than 60 per cent are over the age of 65, confirming two groups of consumers who lack the internet – one elderly and one on low incomes, but with considerable overlap.

Figure 2: Percentage of households who say they have access to the internet at home



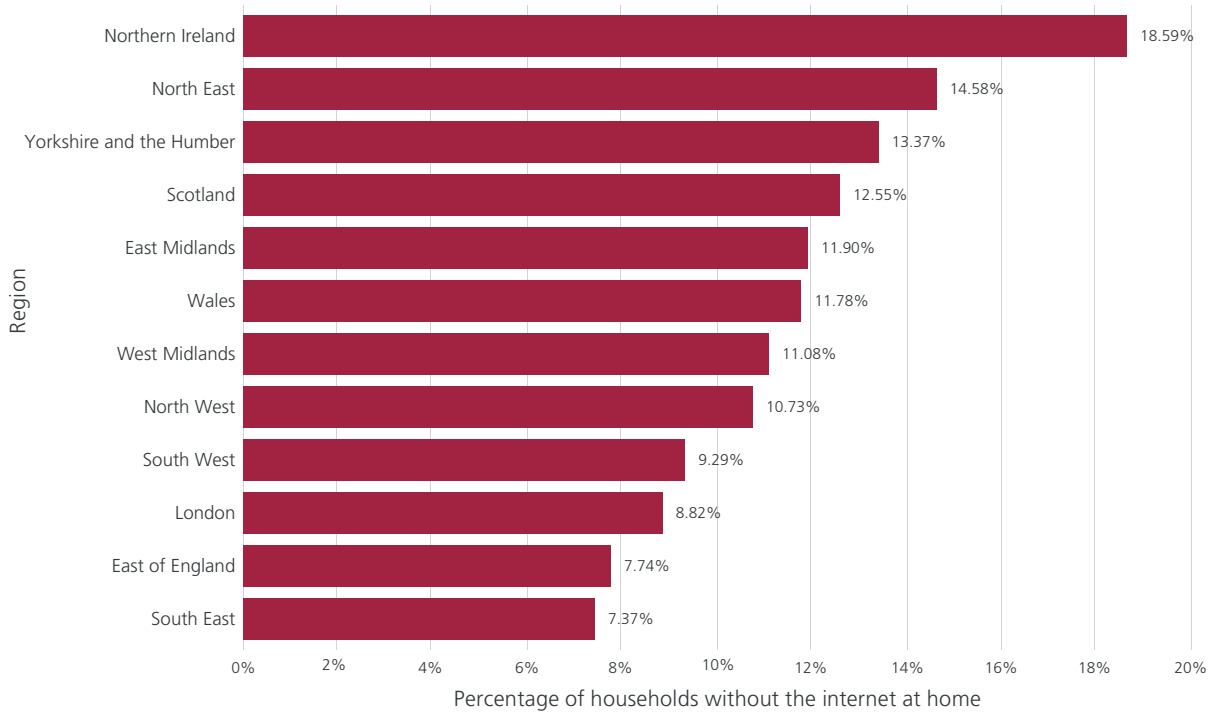
Source: CSJ Analysis of the UK Household Longitudinal Survey (Understanding Society) (n = 16,822 and 2,503)

Figure 3: Cumulative percentage of households with and without internet by equivalized household income



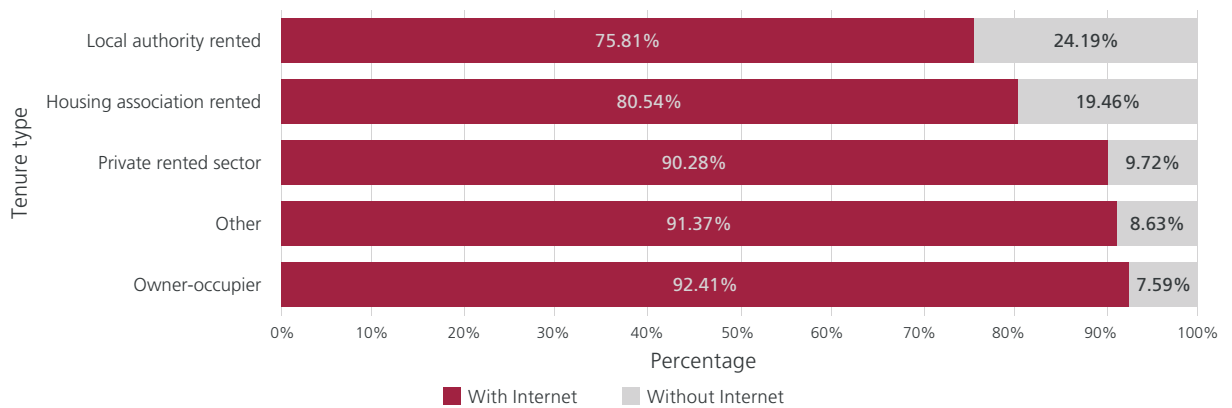
Source: CSJ Analysis of the UK Household Longitudinal Survey (Understanding Society) (n = 16,797)

Figure 4: Percentage of households who say they can't access the internet at home by region.



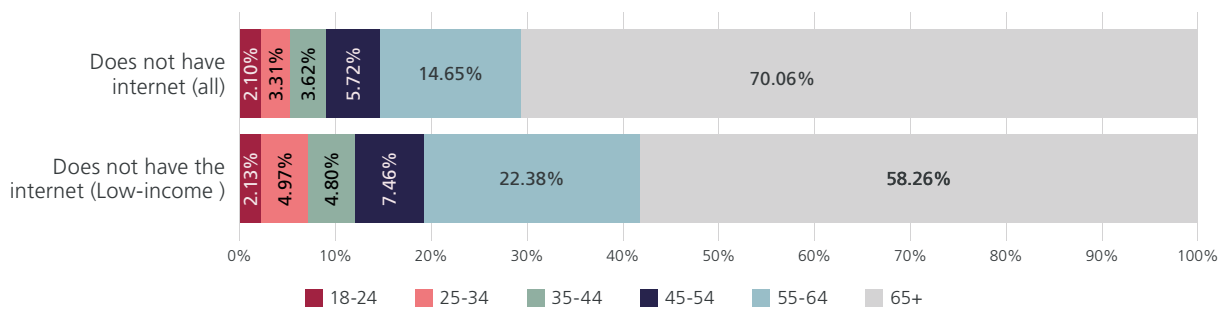
Source: CSJ Analysis of the UK Household Longitudinal Survey (Understanding Society) (n = 16,815)

Figure 5: Percentage of households who say they can't access the internet at home by tenure



Source: CSJ Analysis of the UK Household Longitudinal Survey (Understanding Society) (n = 16,720)

Figure 6: Age distribution of consumers who live in households that don't have access the internet.



Source: CSJ Analysis of the UK Household Longitudinal Survey (Understanding Society) (n = 1,252 and 367)

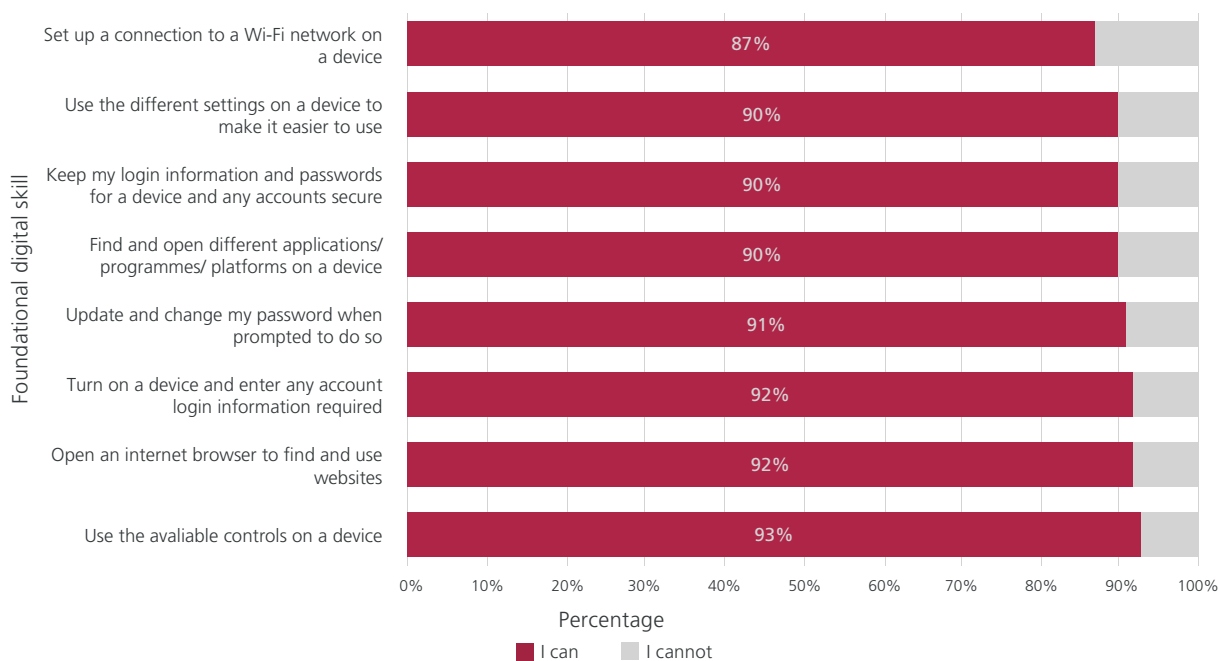
Digital capability

Limited or no access to the internet presents an obvious barrier to searching for cheaper goods and services online but access alone is not a silver bullet. Indeed – access to the internet is just one of a trio of elements. These are devices, data, and capability. Without a device, the question of data, be that access to the internet from home or mobile data matters little, and without capability, neither of these assets can be properly utilised.

To investigate digital literacy, this section will use data from the Essential Digital Skills Index and Digital Consumer Index to expose considerable gaps in digital skills across the UK.¹⁴

Defined by the Department for Education, the Essential Digital Skills Framework provides a list of eight foundational tasks that are used to assess how well consumers can operate and engage with technology and the online world. As figure 7 below shows, a significant proportion of the adult population have limited digital capability, with 38 per cent of the population – equivalent to 20 million people – deemed to have very low or low digital skills. For instance, research indicates that 5 million adults in the UK cannot use an app and 4.5 million people cannot turn on a device and enter login information by themselves.¹⁵

Figure 7: Percentage of consumers who can complete foundational digital tasks¹⁶



Source: Lloyds Banking Group Essential Digital Skills (n = 4,099)

Without these basic skills, many consumers who possess devices may struggle to use them well enough to take full advantage of their potential. When consumers are grouped by their digital capability, it becomes clear that those with limited capability are less likely to perform a significant number of the tasks needed for life and work.

As Table 1 shows below, consumers with low digital capability are considerably less likely to undertake a number of interactions on the internet, including applying for jobs, buying products and services, sending emails, and online banking/money management.

¹⁴ Lloyds Bank, 2022 Lloyds Bank Consumer Digital Index, November 2022

¹⁵ Lloyds Bank, 2022 Lloyds Bank Consumer Digital Index, November 2022

¹⁶ The largest dataset holds the behavioural and transactional data for one million UK consumers. Using this dataset alone, digital and financial engagement scores and capability segments are created, to measure the extent to which people are engaged with the digital world and managing their day-to-day finances

Table 1: Percentage of consumers who use the internet to undertake a number of tasks by digital capability segment, 2022

	Very low	Low	High	Very high
Applying for jobs	21%	22%	32%	38%
Buying products and services	68%	84%	90%	93%
Email	79%	88%	95%	97%
Online banking/money management	31%	91%	96%	97%
Shopping around to save money on energy bills	26%	33%	45%	49%
Using online messaging services e.g. Whatsapp	66%	67%	89%	92%
Posting or sharing videos or photos	39%	39%	60%	72%

Source: Lloyds Bank 2022 Consumer Digital Index (n = 2,675)

Not engaging in these activities means that many people are likely to pay poverty premiums even if they have access and otherwise feel confident using the internet. Consumers who do not buy products and services online are missing out on the benefits of price comparison websites and are more likely to pay over the odds for products such as insurance or credit because they're less likely to find the deal most suited to them.

Indeed, Table 2 below shows significant differences in how those with very low and very high digital skills engage with financial services. Those with very high skills are more likely to manage their money online, use financial calculators, and keep track of savings. It is also reported that those least likely to use the internet in this way tend to be on lower incomes.¹⁷ Given that many of the activities below are likely to lead to cost savings – such as getting a better deal using a financial calculator, saving more easily, or understanding and improving your credit score to be priced at a lower risk - this suggests that those most likely to benefit are the least likely to do so.

Table 2: Proportion of people who agree or strongly agree with each of the following statements about using the internet to help manage their finances

	Very low	Low	High	Very high
I prefer to manage my money online than via other banking channels	22%	58%	78%	84%
I use budgeting tools/online financial calculators to help manage my money	7%	14%	23%	28%
I use the Internet to help boost my credit score	9%	14%	29%	4%
I use the Internet to invest money and/or to buy or sell stocks and shares	6%	14%	18%	21%
I use the Internet to keep track of my pension/retirement savings	23%	44%	47%	46%
Managing my money online helps me to save more for the future	20%	47%	66%	69%
More of my spending is done online these days	24%	55%	68%	77%
Using buy now, pay later Internet shopping sites and apps help me to budget better	11%	8%	20%	30%
Using the Internet means that I am more confident when managing my money	27%	59%	75%	78%

Source: Lloyds Bank 2022 Consumer Digital Index (n = 2,675)

¹⁷ Lloyds Bank, 2022 Lloyds Bank Consumer Digital Index, November 2022

Digital skills are also important in many other spheres of life – such as seeking and maintaining employment. In our own focus groups (see chapter 2) we found that many of those on the lowest incomes found engaging with the Department for Work and Pensions and future employers online challenging and wanted to improve their skills as a result.

Table 3 below shows whether people think their digital skills have improved over the past 12 months. While it is worrying that just over a fifth of those with very low digital skills feel they do not need improving, a greater number – 35 per cent – believe they do need improving. Providing support to enable that improvement would improve life chances and reduce the likelihood of people paying over the odds for basic goods and services.

Table 3: How consumers feel their digital skills have changed in the past 12 months, split by digital capability segment, 2022

	Very low	Low	High	Very high
Yes	32%	40%	42%	42%
No, but I do not feel they need improving	35%	41%	42%	49%
No, although I do feel that they need improving	21%	12%	10%	5%
Don't know/prefer not to say	12%	7%	6%	4%

Source: Lloyds Bank 2022 Consumer Digital Index (n = 2,675)

Having exposed higher levels of digital exclusion than typically cited, we have highlighted an additional capability issue faced by consumers.

One considerable benefit of digital inclusion is access to cheaper goods and services. Without this access, disconnected low-income consumers are likely to pay a poverty premium, meaning those on low incomes pay more for basic goods and services, such as utilities, insurance, and credit. In the next chapter, we present qualitative evidence from focus groups carried out by the CSJ exploring the barriers consumers face to accessing the internet, what they use the internet for, and how they access basic goods and services.

Chapter Two: Digital Exclusion and the Poverty Premium

In the first section, we have shown that a significant number of consumers continue to be digitally excluded in varying forms, be it because they lack devices, data, or capability. Without these, consumers will continue to face barriers to realising the full benefits of internet access. One such benefit is greater access to cheaper goods and services and thus an increased ability to avoid poverty premiums.

What is the Poverty Premium?

The phrase 'poverty premium' describes the fact that low-income households pay more for basic goods and services due to a range of demand and supply side factors, some voluntary, some imposed.

Demand side premiums often relate to income constraints and limited financial resilience. Where consumers possess limited incomes, they may find it difficult to pay for goods and services in large lump sums. One example of this is where consumers who use small sums of credit to meet their outgoings resort to high-cost credit. In other instances, poverty premiums simply reflect a cost associated with a requested good. Paper bills – which are typically requested by those on low incomes for budgeting purposes - are one such example, with companies able to charge customers small sums to receive paper bills.¹⁸

Supply side premiums reflect the increased cost of serving low-income consumers. Common examples include the increased cost of collections where consumers pay in smaller, more frequent instalments, the cost of issuing paper bills to consumers who request them, and the greater risk involved in extending credit. Indeed, supply and demand side premiums can often overlap.

This means that many low-income consumers pay more for basic goods and services due to the way the market interacts with their choices, needs, and wants. The limited financial means of consumers on low incomes reduces their overall economic flexibility and creates more costly choices, which, in turn, serves to reduce their means further. This cycle of paying over the odds makes up the poverty premium.

In research published in November last year, we estimated that nearly seven million people in Great Britain are paying multiple poverty premiums, costing them on average £478 more a year.¹⁹ This will have marginally declined in the time since, due to the Government's decision to eliminate much of the premium in energy by aligning charges for comparable direct debit and Pre-Payment Meter customers.²⁰

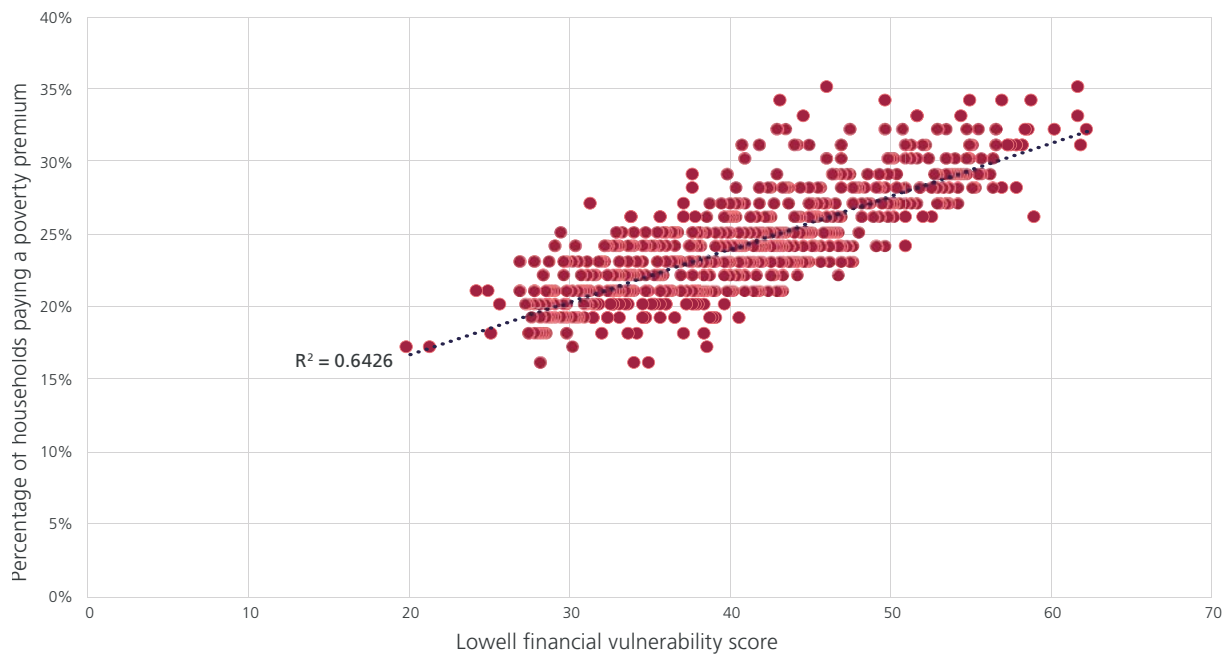
Many premiums, however, still remain. Figure 8 below shows financial vulnerability, which indicate areas where consumers are on low incomes, use alternative financial products and lack emergency savings, is concentrated in areas where a greater number of consumers are effected by the poverty premium. Reducing these premiums would help to redress financial vulnerability. We made a number of recommendations in *Over the Odds* to achieve this.

18 University of Bristol, *Paying to be poor: Uncovering the scale and nature of the poverty premium*, November 2016.

19 Centre for Social Justice, *Over the Odds: Next steps for dismantling the poverty premium*, November 2021.

20 HM Treasury, *Spring Budget 2023*, March 2023.

Figure 8: Financial vulnerability shows a moderate correlation with increased prevalence of poverty premiums in parliamentary constituencies²¹



Source: CSJ Analysis of Lowell Financial Vulnerability Index and University of Bristol (n = 632)

We also noted that access to a wide range of goods and services allows customers to find cheaper options. Our research found that any form of digital exclusion prevented access to the online marketplace and became a significant factor contributing to poverty premiums. Without knowledge of the range of providers, and the services they provide, consumers cannot explore the market and purchase the best deals for them. In the following section, we seek to demonstrate that fully. To do this, we present preliminary evidence which suggests that consumers cannot access goods and services as cheaply in-person as they can online. We also present evidence collected from five focus groups to explore how different forms of digital exclusion create and exacerbate the poverty premium.

21 Figure 8 has two sources. The X axis is the financial vulnerability score of a parliamentary constituency calculated by Lowell and Opinium. These scores are arrived at by calculating a metric comprised of six data points. These are consumers who are in default (failure to make payment) [Lowell data point], consumers with high-cost loans [Lowell data point], Average credit use [Lowell data point], Consumers claiming social benefit [NOMIS data point], consumers using alternative financial products [Financial Conduct Authority data point], and consumers without emergency savings [Financial Conduct Authority data point]. Lowell's proprietary data included over 9 million records. The Y axis is the result of a spatial microsimulation produced by the University of Bristol. Spatial microsimulation allows researchers to combine individual-level survey data with geographically aggregated data from the 2011 census. It takes those variables which exist in both data sets and produces weights that show how likely an individual from the survey data is to live within a given area. Using these weights, researchers can predict area-level values for variables that previously only existed in the individual-level survey. In this instance, individual survey data collected by the University of Bristol on the presence of the poverty premium has been simulated using a technique known as iterative proportional fitting (IPF) to calculate the percentage of households affected by the poverty premium per parliamentary constituency.

The Costs of Digital Exclusion

In an increasingly digital world, the way we shop has and continues to change. Traditional shopping channels now face significant competition from online providers and evidence shows that 25.2 per cent of all retail transactions are now performed online.²²

One key reason for this shift is that buying products and services online tends to be more cost-effective compared to purchasing them from physical retail outlets. Our desk research suggests that this is because of reduced overhead costs, the availability of a wider range of goods, and the availability of deals and discounts.

In *Over the Odds* we estimated that nearly seven million people in Great Britain pay multiple poverty premiums and these premiums cost consumers about £478 each year.²³

For this report, we wanted to understand how much more expensive purchasing goods and services offline can be than online. To do this, we provide an illustrative example of a number of transactions across some basic goods and services. These include different forms of insurance, phone contracts, food, and train travel.

When compiling the data, we used price comparison websites and company websites to find the cheapest deals available online and we compared those with the cheapest options available in stores we could visit or via customer service telephone numbers we could ring. This allowed us to understand how different consumers who provide the same information might be priced differently depending on the communication channel they used. We found that when telephoning or visiting a store, consumers generally paid more, including 114 per cent for sim-only phone contracts and 29.2 per cent for train tickets. Table 4 below shows the results of our illustrative series of transactions.

We found that on average consumers without access to the internet paid 25 per cent more across the series of transactions we enquired about. However, goods and services did not uniformly differ in how much more expensive they were. For example, the online savings for car insurance were only 2.2 per cent, and a phone with a contract was 16.1 per cent.

Table 4: Shows the difference in costs between shopping online and in person or over the telephone.²⁴

Items	Cheapest Price Online	Cheapest Price Offline	Price Difference	Percentage Difference
Car insurance	£567.74	£580.35	£12.61	2.2%
Home Insurance (Contents only)	£40.00	£58.46	£18.46	46.15%
Phone and contract	£335.80	£390.00	£54.20	16.1%
Sim only contract	£168.00	£359.76	£191.76	114.1%
Train travel	£26.30	£34.00	£7.70	29.2%
Food	£21.44	£32.18	£10.74	50.1%
Total	£1,159.28	£1,454.75	£295.47	25.5%

Source: CSJ Analysis of Opinion Polling

22 Office for National Statistics, *Internet sales as a percentage of total retail sales (ratio) (%)*, May 2023.

23 Centre for Social Justice, *Over the Odds: Next steps for dismantling the poverty premium*, November 2022.

24 Please see Appendix A for more details

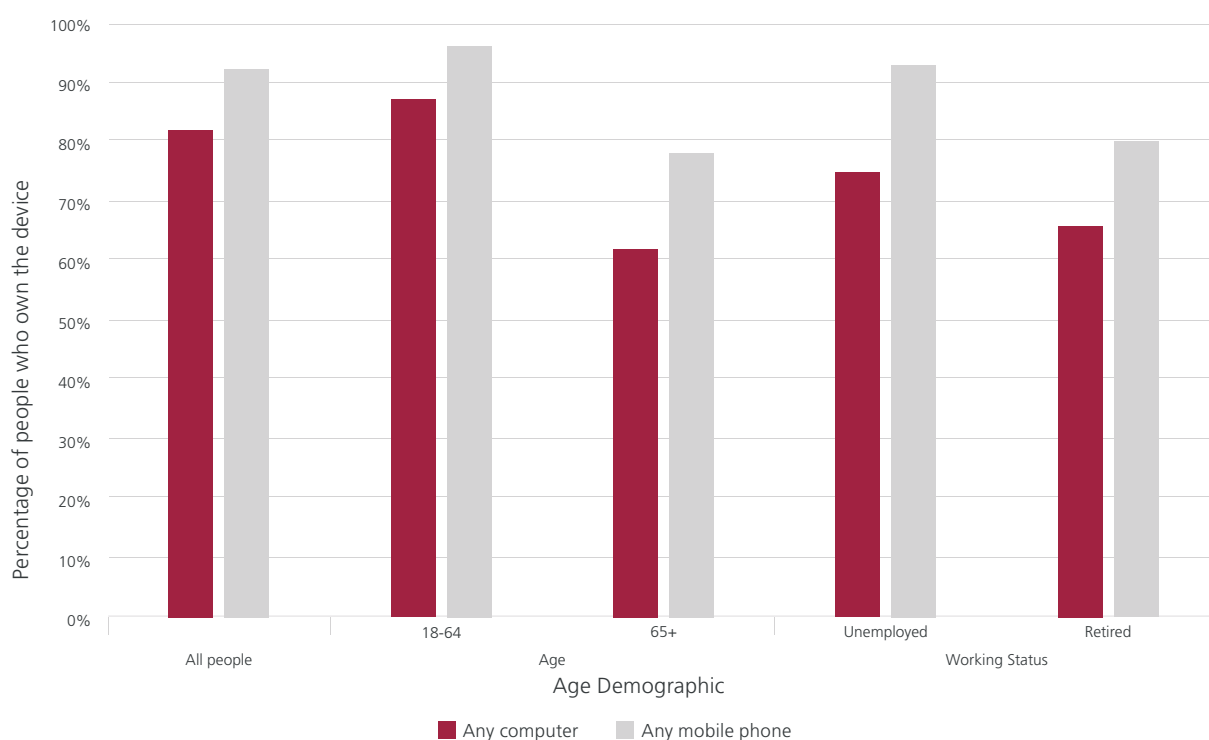
How digital exclusion creates poverty premiums:

In order to understand how digital exclusion creates poverty premiums, we conducted five focus groups in partnership with small charities across the country. Focus group participants were users of the charities who selected them. These were hosted in Leeds, Rochdale, Buxton, Loughborough, and Manchester. Below, we discuss the four key themes that emerged: limited access to devices, data scarcity, poor digital capability, and fear of scammers.

1. Limited access to devices

Lack of devices emerged as a key theme, with this being a particularly prevalent issue amongst those who were unemployed or retired. Evidence collected by Ofcom, presented in figure 9 below, confirms that low income and retired households are far less likely to own a computer nationally. While 82 per cent of all people own any computer (defined as a personal computer, laptop, or tablet), this is considerably lower amongst those who are retired. Just 62 per cent of those aged over 65+ own a computer and 75 per cent - of those who are unemployed, both below the national average.

Figure 9: Ownership of devices



Source: Office for Communications (Ofcom) (n = 4,278)

In our focus groups, when asked why they did not own a device, many said that they did not see the need for them, either because they lived life perfectly fine without them or because they distrusted the internet. Some participants were homeless and so did not have devices because they were at constant risk of being stolen or lost, while others cited cost.

Some attendees noted that they struggle to afford the initial cost of purchasing devices such as computers, smartphones, tablets, and mobiles. Our research indicates that the cheapest available new smartphone costs just under £100, a considerable initial outlay that many were unable to meet. An alternative is a phone-inclusive monthly contract which may be more expensive and ties the user into a long-term agreement. For those consumers who are less creditworthy, the purchase agreement for the phone itself may be a premium. This is because less creditworthy consumers may be excluded from 0 per cent APR loans – the way consumers pay for phones monthly – and so are required to pay added interest instead. As a result, those with limited financial means find it challenging to purchase digital devices.

The absence of a device presents a foundational issue for consumers who want to access digital services or opportunities. Those attendees without devices reported difficulties accessing their emails, making video calls, meeting their Universal Credit requirements, and finding entertainment and shopping online, usually because they were reliant on shared facilities, such as public libraries. Limited opening times and unreliable access sometimes made these facilities unhelpful, and some participants reported travelling – and paying the cost associated with that travel – only to be unable to complete the tasks they had set out to do. Below is one example of a charity helping to tackle this issue.

Case Study: Lifeshare, Manchester

Lifeshare is a voluntary organisation established to help meet the needs of homeless and vulnerable people in Manchester and Salford. Many of the people who attend Lifeshare's services have minimal access to devices and instead rely on publicly provided devices and data via public libraries.

As part of their work, Lifeshare support homeless people improve their digital access and skills by redistributing devices and building digital skills through in-person workshops, 1-to-1 support, and an e-learning platform. This helps users keep up to date with their Universal Credit obligations, enjoy online entertainment and keep in contact with other people.

Where participants did have devices, they were often very old or broken. Where participants owned a single device only, it was usually a phone. This changed how they used the internet. For example, some participants were happy to access online banking via their phones but did not use price comparison websites because they did not have a laptop or computer.

“I don't even know if it's a smartphone or not”- Richard

We showed in *Over the Odds* that consumers on lower incomes are less likely to access home and contents insurance and lower cost forms of credit, instead opting to go without or using higher cost credit, itself a premium.²⁵ We also showed that they were more likely to pay for their utilities in more costly ways, either by using a pre-payment meter, paying in an alternative means to direct debit such as paying upon receipt of a bill, and receiving paper bills.²⁶

Our focus groups reaffirmed these conclusions– with many attendees without devices saying that they did not have insurance or use credit products. Where attendees did pay for insurance, credit, or utility products, these attendees were likely to be paying a poverty premium.

Some attendees without devices told us that they received paper bills, which they are likely to pay a small cost for, because they couldn't access their bills online. Another mentioned that the insurance products they had purchased were all through the same provider on the local high street due to their accessibility, despite the fact they may not be offering the best deal.

In a different case, an attendee said that they had bought from a provider based on a recommendation from a friend without doing any searching themselves. This decision is likely to result in a premium because the attendee was unaware of other deals on the market. These examples highlight the ways in which a lack of access to devices increases the likelihood of some consumers paying a higher price for basic goods and services due to their digital exclusion.

2. Data scarcity

²⁵ Centre for Social Justice, *Over the Odds: Next Steps towards dismantling the poverty premium*, November 2022.

²⁶ *Ibid.*

Data scarcity was another common theme raised in focus groups as many participants expressed frustration with poor connection speeds and increasing prices. As the cost of living continues to put pressure on family finances, survey evidence produced by Ofcom in April 2023 shows that some 9 per cent of people – equivalent to (9% in aggregate form) – say they are struggling to afford fixed broadband.²⁷ This is significantly higher amongst those who are unemployed and looking for work, with 19 per cent saying this. Many consumers appear to be cutting back – 7 per cent of consumers say that they have made a change to their broadband package and a further 2 per cent say that they have cancelled their fixed broadband.²⁸

“Everyone assumes that everyone has got this connection. Everyone assumes that everyone is online but we’re not.” - Justin

A number of attendees at our focus groups told us that they struggle to afford home broadband, and some told us they were considering cancelling their broadband contracts, opting to rely on mobile data instead. We found this to be the case at Family Action in Rogerfield and Easterhouse, featured below.

Case Study: Family Action in Rogerfield and Easterhouse (FARE)

Family Action in Rogerfield and Easterhouse is a community anchor organisation founded in 1989 by local residents. It is a Scottish Qualifications Authority Accredited Centre and provides courses and qualifications on site as well as supporting attendees with money, health, and fuel advice.

FARE’s employability team runs a range of programmes focussed on helping young people into employment. They noted that some of their service users have devices allocated to them by their schools but can’t access the internet at home. Instead, they relied on the internet provided either by their school or a connection via a friend’s hotspot.

The affordability of mobile data was also a concern. During one focus group, attendees discussed their reliance on the cheapest mobile data packages, which some felt were unfairly priced. For example, we were told that one provider offers two options: 2GB of data for £6 a month and 5GB for £8 a month. This pricing means the initial 2GB of data is considerably more expensive than the additional 3GB. While this is a common pricing structure that utilises operations of scale and encourages customers to spend more, many consumers on low incomes felt they were paying more for less. Attendees also noted that many telecoms providers don’t give their customers the flexibility to change their data packages outside of contract periods, with several big providers only offering 12 or 24-month sim-only contracts. Some focus group participants expressed frustration with this lack of flexibility, as their own financial uncertainty meant that they did not want to be tied into long-term contracts they may be unable to afford in future.

It is important to note that many telecoms providers offer social tariffs to make home broadband more affordable to people in receipt of welfare benefits. This provides them with cheaper access to data packages. While many more households are now aware of social tariffs, research continues to suggest that over half of adults living in eligible households do not know what a social tariff is.²⁹ It is, therefore, unsurprising that uptake remains low at just 5.1 per cent of households in receipt of Universal Credit.³⁰

27 Ofcom, *Communications affordability tracker*, June 2023.

28 Not all consumers who have changed their broadband will have cut back; Ofcom, *Communications affordability tracker*, June 2023.

29 OfCom, *Affordability of communications services: April 2023 update*, April 2023.

30 *Ibid.*

This reality was reflected in our focus groups. Many participants did not know what a social tariff was and a number of those who knew what they were did not know if they were eligible. Indeed, some of these participants reported running out of data when they may have been able to purchase more data at an affordable price.

Many participants struggling financially relied on publicly accessible Wi-Fi as they were unable to afford broadband or data packages. They noted that these were often slow or unreliable and some expressed concern about putting sensitive data into devices connected to the internet in this way. Others noted that their limited personal data or reliance on public Wi-Fi meant that they did not access the internet for long periods of time and so prioritised other things, such as completing their Universal Credit work journal, or enjoyment, such as YouTube and social media. As a result, many did not seek to use their access to shop around for goods and services, thus increasing the likelihood of their paying a poverty premium.

3. Poor digital capability

Lack of confidence was another common theme that emerged from our focus groups. As a result, many consumers used the internet in quite limited ways, meaning they did not take advantage of opportunities to save money. This meant that regardless of their access to devices and sufficient data, they still paid poverty premiums.

Attendees described difficulties with both basic tasks, such as using a URL, and more complicated tasks, such as navigating price comparison websites. We found these difficulties were experienced by a broad range of people who felt it would be very difficult to improve. Those with limited access to devices relied on public libraries to get online, which limited the time they could be online and therefore the opportunities to improve their digital capabilities. However, even some of those with devices and data at home still lacked the necessary skills to act independently online and struggled to improve their skills without support.

Generally, digital literacy was lowest amongst focus group participants who were homeless, which might be expected owing to the profound challenges they face across a range of issues. Participants we spoke to said that they had limited experience using the internet and used it mostly to complete their Universal Credit Work Journals and to engage with homelessness services. They told us that they wanted to become more digitally literate so that they could engage more actively once the immediate issues they faced were resolved. They saw the internet as a route to engage with culture, such as emails and social media, and find work.

A second group of participants spoke about how they generally lacked the confidence to use the internet to its fullest extent. To be clear, they used the internet on a regular basis, but only for entry level tasks and found more complicated tasks intimidating. One such example was a person who told us that they were happy to log into their Universal Credit journal but struggled to fill in more detailed forms required by the Department for Work and Pensions and others. Others told us that they were keen to use price comparison websites, but they struggled to know where to search.

"I would like to utilise the internet more fully than just going round the edges. I don't know how you operate it." - Alison

One key example of a lack of digital capability compromising engagement with Government services came from attendees who told us that they had received text messages from the Government including a URL. Unfortunately, due to their limited digital skills, they didn't know what the URL was or what to do with it. The text message did not allow for a text response and there was no telephone number to contact. This left certain attendees confused and unsure of what they had been sent.

Many of these attendees enthusiastically agreed that they wanted to improve their digital literacy but said that they only felt comfortable conducting a task after they had been shown how to complete it.

It was frequently said that their friends and family had a role in this learning process. One attendee said that she relied on her family to teach her how to use a device and that she wouldn't have been able to do it on her own. Another told us her grandson had booked her into classes. One charity that provides classes is Zink, featured below. Examples were shared of how people had help setting up an email account and were shown how to send an email. This gave them the confidence to send and receive emails without supervision. In a different group, one user spoke of how his partner did all the digital tasks; without his partner, he wouldn't be able to turn on a computer.

"If you've got no friends or relatives close by, you're in prison aren't you." - William

Case Study: Zink

Zink grew out of High Peak Foodbank to provide holistic support to families. Zink hosts weekly drop-in sessions for people who want to learn and improve their digital skills, offering classes on how to use search engines and be safe online. They also provide employment support, financial support, and food supplies, amongst a selection of other services.

Friends and family were a source of devices as well as a source of advice on how to use them. Many attendees said they were appreciative of the devices they had been given but would not be able to replace the device when it broke.

Evidence from the Financial Lives Survey also suggests that help from friends is common, noting that 34 per cent of people provided help to a digitally excluded friend during the pandemic.³¹ Others, however, said that they did not want to rely on family or friends for guidance because they did not want to be a burden.

"I have always been anti-technology, which is not healthy in this day and age...I am losing out. I do realise I'm missing out." - Richard

Finally, a third group of attendees told us that while they used some online services, they had specific reservations about certain products and services. For instance, several attendees said that they banked online and were able to view their balance and transfer funds but were unwilling to apply for a loan online because they did not trust online systems and preferred to talk to somebody in a bank branch about such a serious matter. Another participant noted that they had tried to use a price comparison website to find the best insurance deal for them but were overwhelmed by the number of questions they were expected to answer. They were concerned about answering so many questions in case one of their answers was wrong and their resulting cover proved invalid. This meant that they were more likely to acquire products offline and likely pay more than was necessary.

4. Fear of scammers

Attendees consistently told us that one prominent reason they did not engage online was the prevalence of online scammers. Whether people had first-hand, second-hand, or no experience of being scammed, all our focus groups expressed a fear of being scammed. The prevalence of scammers left many consumers fearful of undertaking specific tasks, such as inputting large quantities of personal data, and using the internet more fully regardless of how active they already were.

³¹ Financial Conduct Authority, *Financial Lives Survey 2020*, February 2021.

Scams come in different varieties, including emails, phone calls, and fraudulent websites, and UK Finance estimates that in 2022 over £1.2 billion was stolen by criminals – equivalent to £2,300 a minute – through authorised or unauthorised online fraud.³²

Attendees at all of the focus groups we held had received both emails and phone calls from numbers that they reported were scam artists. Many attendees said that they were unsure what they would do when they received a call or email from someone they didn't know. Some shared that they had been caught out by telephone calls from people who had pretended to be their utility provider or bank and they had shared their personal details, leading to identity theft.

The knock-on effect of these experiences was that several of our focus group attendees did not want to enter their details into websites. This deterred them from shopping online and comparing prices. This not only prevented them from saving money on things such as utilities, credit, and insurance, but in some cases actually raised further costs. For example, in rural areas, our attendees reported having to travel for over an hour on public transport to visit their bank in person.

32 UK Finance, *Over £1.2 billion stolen through fraud in 2022, with nearly 80 per cent of APP fraud cases starting online*, June 2023.

Chapter Three: Towards a digital future

Despite the considerable consumer benefits of being online – many still do not have access to the internet at home. For some consumers, the problem therefore continues to be a foundational one of access. But for others, poor capability presents the barrier. As we have shown, these limitations can prevent consumers from accessing the best deals and may cost them up to 25 per cent more for a series of transactions. For some basic goods and services; this is the price of digital exclusion.

While most consumers without internet access at home wish to remain offline, many others cite the complicated nature of the internet when explaining why they are not online.³³ 17 per cent of those without at home access said that using the internet was too complicated.³⁴

We accept that many consumers don't want to use the internet, and that some won't change their minds. Indeed, there is precedent for this in public attitudes towards previous technological advances, namely the landline telephone, where ownership peaked at 95 per cent.³⁵ As a result, some firms have already concluded that they will need to continue to operate an analogue business for customers who remain offline.

We should aspire to reduce the poverty premium where consumers remain offline and believe that businesses working with government are best placed to achieve this. As in *Over the Odds*, we recommend using the convening power of the Financial Inclusion Policy Forum to bring businesses, regulators, and policy experts together to focus on alleviating the poverty premiums created by digital exclusion.

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Recommendation 1: The Financial Inclusion Policy Forum should use its convening power to focus on reducing the poverty premiums created, including where it is created by digital exclusion

We accept that many consumers don't want to use the internet, and that some won't change their minds. Indeed, there is precedent for this in public attitudes towards previous technological advances, namely the landline telephone, where ownership peaked at 95 per cent.³⁶ As a result, some firms have already concluded that they will need to continue to operate an analogue business for customers who remain offline.

We should aspire to reduce the poverty premium where consumers remain offline and believe that businesses working with government are best placed to achieve this. In an increasingly digital world, reducing digital exclusion is necessary to ensure as many consumers as possible can access all the benefits of technology, including communicating with friends and family, enjoying online entertainment, and accessing cheaper goods and services.

As we have shown, consumers who remain offline may pay significantly more for some basic goods and services, including food, insurance, and some mobile contracts. These should be addressed. However, decreasing digital exclusion alone will not end the poverty premium. We believe that businesses working with government are best placed to overcome these issues and therefore echo our previous recommendations and recommend that the Financial Inclusion Policy Forum should use its convening power to focus on reducing the poverty premium, including where it is created by digital exclusion.

33 OfCom, *Adult Media Literacy Core Survey 2022 – 23rd September – 9th November 2022*.

34 *Ibid.*

35 Centre for Economics and Business Research, *The economic impact of digital inclusion in the UK*, July 2022.

36 Centre for Economics and Business Research, *The economic impact of digital inclusion in the UK*, July 2022.

However, as society advances technologically, these consumers will become a smaller proportion of the total population and serving them will become increasingly untenable for both business and government. We therefore believe that government has a continued role in supporting the growth of digital inclusion. The evidence we presented above continues to suggest that there are still many households who could be encouraged onto the internet and to improve their skills – particularly those who are on low incomes and those of working age for whom the rewards of digital access may be greater.

The principles set out in the Government's 2014 Digital Inclusion Strategy continue to resonate with the challenges we have identified in this paper, namely access, skills, motivation, and trust, but government's momentum has been lost.³⁷ We recommend that the Department for Science, Innovation, and Technology set out a new Digital Inclusion Strategy to return inclusion to the heart of its digital strategy.

Recommendation 2: The Department for Science, Innovation, and Technology should set out a new Digital Inclusion Strategy

The principles set out in the Government's 2014 Digital Inclusion Strategy continue to resonate with the challenges we have identified in this paper, namely access, skills, motivation, and trust, but the momentum by government has been lost. Indeed – the performance platform cited in the strategy has been moved to the National Archives. We recommend that the Department for Science, Innovation, and Technology should set out a new Digital Inclusion Strategy to return digital inclusion to the heart of its overarching Digital Strategy. We detail further recommendations for the contents of that strategy below.

In the following pages, we propose 8 recommendations to improve access to data and devices as well as improve consumer skills.

Devices

Digital devices have become important tools for communication, education, employment, and accessing goods and services. However, as we have shown, a significant number of consumers do not have access to devices – often because they cannot afford them.

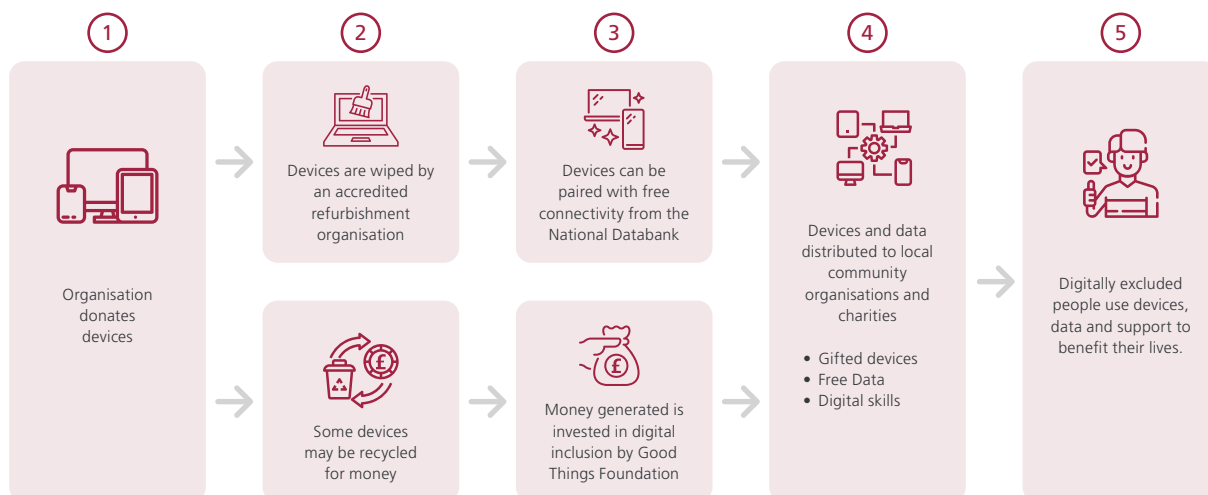
Refurbishing and Donating Devices

A number of programmes exist to refurbish and distribute digital devices, and these offer a sustainable and cost-effective solution to support digitally excluded consumers. These programmes collect, securely wipe, and refurbish donated devices which are then passed to local community organisations for distribution, alongside digital skills classes. Two examples of this include Vodafone's Great British Tech Appeal and the Good Things Foundation's National Device Bank.

³⁷ Cabinet Office, *Government Digital Inclusion Strategy*, December 2014; *Hansard, House of Commons Topical Questions – Wednesday 3rd May 2023*, May 2023.

Figure 10: Flow chart of the National Device Bank

How does the National Device Bank work?



Source: Good Things Foundation³⁸

“You have no idea what this means to us as a family. It’s helped so much with home schooling as we only had one device between three of us”³⁹

The growing necessity of online access makes sufficient access to devices increasingly important. We believe the Government has an opportunity to promote device donation and lead by example.

The Help for Households website was set up by the Government to enable households to find out what support is available to them throughout the cost-of-living crisis. It helps by directing visitors to support payments they may be entitled to and provides tips to save money on goods and services, such as energy and travel. As it stands, the Help for Households website displays support people can receive, but it could also be used to advertise support that people can give, such as donating devices to initiatives like the National Device Bank. This intervention would see government connect people and charities with minimal costs.

Recommendation 3: The Help for Households campaign should direct people to ways they can recycle devices.

The Help for Households website was set up by the Government to enable households to find out what support is available to them throughout the cost-of-living crisis. It helps by directing visitors to support payments they may be entitled to and provides tips to save money on goods and services such as energy and travel. As it stands, the Help for Households website displays support people can receive, but it could also be used to advertise support that people can give, such as donating devices to initiatives like the National Device Bank. This intervention would see government connect people and charities with minimal costs.

38 Good Things Foundation, *National Device Bank*.

39 Vodafone, *The Great British Tech Appeal*

In addition to promoting charitable initiatives, government should lead by example and support recycling efforts by donating its own disused devices. In 2020, the Government published its Greening government: ICT and digital services strategy 2020-2025 that sets out new rules – built into departmental roles and deliverables - for government and its suppliers to apply a circular ICT policy. This included the recycling of devices.⁴⁰ This complements government's wider Greening Government Commitments and its focus on minimising waste.⁴¹ Government and its suppliers could go further by distributing some of those recycled devices and thus supporting bring digital exclusion to an end. We recommend donating devices after they have been expertly and securely wiped of sensitive information to make good on these commitments and perform a social as well as environmental good.

Recommendation 4: Government should lead by example and donate disused devices after they have been wiped of sensitive material.

In addition to promoting charitable initiatives, government should lead by example and support recycling efforts by donating its own disused devices. In 2020, the Government published its Greening government: ICT and digital services strategy 2020-2025 that sets out new rules for government and its suppliers to apply a circular ICT policy, including the recycling of devices. This complements government's wider Greening Government Commitments and its focus on minimising waste. We recommend donating devices after they have been expertly and securely wiped of sensitive information to make good on these commitments and perform a social as well as environmental good.

Right to Repair

In recent years, the UK Government has taken steps to improve the recycling of home appliances – such as washing machines, dishwashers and refrigerators - and electronic displays by consumers and businesses by introducing Right to Repair regulations.⁴² These regulations legally require manufacturers to produce devices in a way that facilitates easy repair and they must make spare parts available to professional repairers within two years of a product going on sale.⁴³ These regulations became mandatory for products bought from 1st July 2021 and implementation began on 1st July 2023. However, these regulations do not apply to smartphones and laptops.⁴⁴

Research suggests that 155,000 tonnes of unwanted electricals are thrown away by UK households each year, and mobile phones and laptops make up a considerable part of this.⁴⁵ According to Mazuma Mobile, 4.7 million people in the UK have thrown away an old phone rather than recycle it.⁴⁶ In some instances, this will be because phones are simply old and unwanted; in others it is because they are broken. Once broken, smartphones can be very difficult to repair.⁴⁷

If devices were easier and cheaper to repair, more devices could be introduced into the refurbished device market reducing their cost. Additionally, charitable organisations would be able to expand their acceptance criteria for donations, repair broken devices, and distribute them. Extending the Right to Repair to smart phones and laptops would offer a significant increase in consumer protection and it would likely also increase the supply of affordable second-hand devices in the wider market. We therefore recommend that the Government explore options to expand the Right to Repair to laptops and smartphones.

40 Department for Environment, Food and Rural Affairs, *Greening government: ICT and digital services strategy 2020-2025*, September 2020.

41 Department for Environment, Food, and Rural Affairs, *Greening Government Commitments 2021 to 2025*, December 2022.

42 House of Commons Library, *Right to Repair Regulations*, September 2021; [Legislation.gov.uk](https://legislation.gov.uk), *The Ecodesign for Energy-Related Products and Energy Information Regulations 2021*, 2021.

43 *Ibid.*

44 House of Commons Library, *Right to Repair Regulations*, September 2021.

45 Material Focus, *Only a third of UK are recycling their old electricals*, October 2021.

46 Mazuma Mobile, *Mobile phone recycling facts and figures*, January 2023.

47 IFIXIT, *Smartphone repairability scores*.

Recommendation 5: Government should explore opportunities to expand the Right to Repair to laptops and smartphones.

In recent years, the UK Government has taken steps to improve the recycling of digital devices by consumers and businesses by introducing Right to Repair regulations. These regulations require manufacturers to produce devices in a way that facilitates easy repair and makes spare parts available to professional repairers within two years of a product going on sale. However, these regulations do not yet apply to smartphones and laptops. Instead, government proposals reflected the product-specific requirements that the UK previously voted for at EU-level in 2018/19, which did not include mobile phones or laptops at the time.⁴⁸

While some manufacturers have started to produce repairable smartphones, there has not yet been a clear shift in this direction.⁴⁹ If devices were easier to repair, more devices could be introduced into the refurbished device market reducing their cost. Additionally, charitable organisations would be able to expand their acceptance criteria for donations, repair broken devices, and distribute them. Extending the Right to Repair to smart phones and laptops would offer a significant increase in consumer protection, but it would likely also increase the supply of second-hand, affordable devices in the wider market.

Data

We have shown that data scarcity remains a significant problem for many households and thus something that a serious digital inclusion strategy must relaunch efforts to address. Below, we make the case for further interventions to improve the uptake of social tariffs.

Social Tariffs

Social tariffs are targeted, discounted tariffs for broadband and mobile services that are available to low-income consumers. Ofcom estimates that a social tariff can save households £200 on average a year and defines social tariffs as having the following features:

Table 5: Features of social tariffs

- Commercially discounted price;
- Market competitive speeds;
- No mid-contract price rises;
- Available to customers on Universal Credit;
- No early termination charges, either for moving onto or off the social tariff;
- Minimal set up costs.

Source: Ofcom⁵⁰

48 House of Commons Library, *Right to Repair Regulations*, September 2021; Department for Business, Energy & Industrial Strategy, *Energy-related Products: Summary of Responses*, March 2021; Department for Business, Energy & Industrial Strategy, *Draft Ecodesign and Energy Labelling Regulations 2021: Government Response*, March 2021.

49 The Verge, HMD's first repairable Nokia wasn't a one off, June 2023.

50 Ofcom, *Affordability of Communications Services*, September 2022.

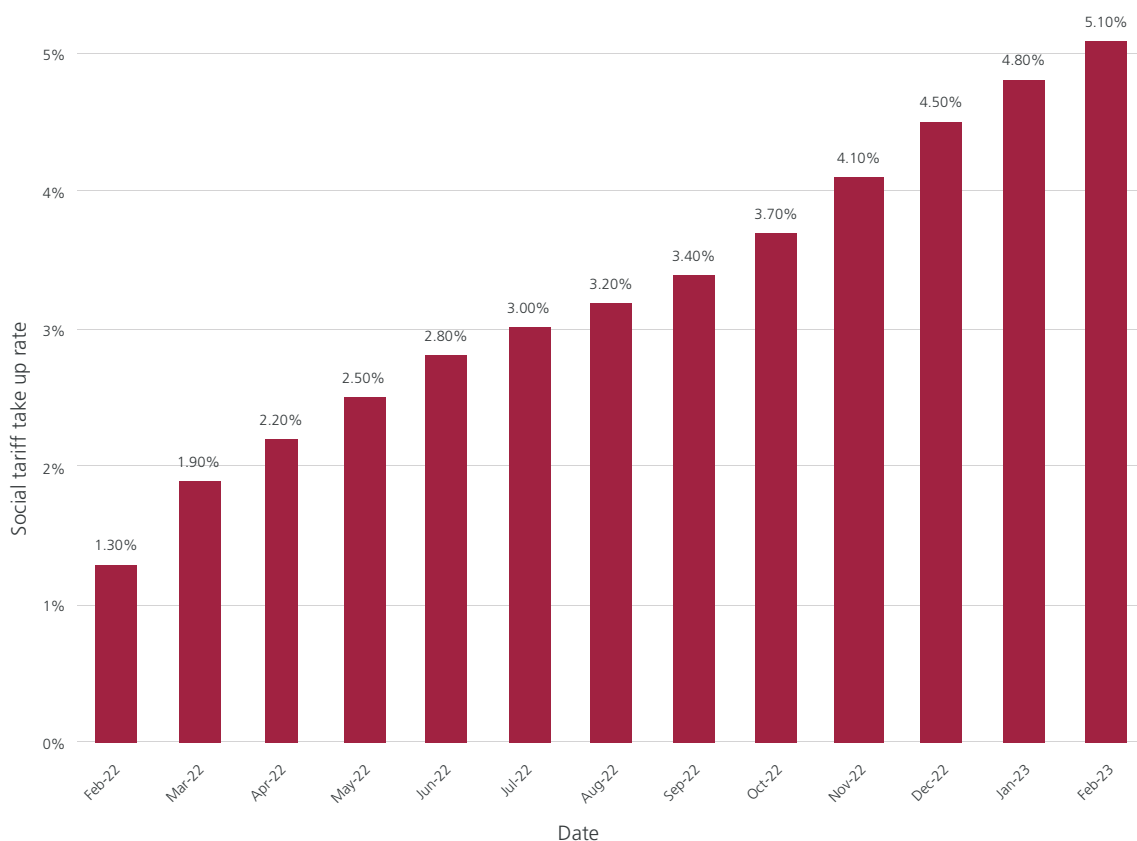
While the provision of a social tariff is not mandatory, almost all major providers offer one and about 85 per cent of consumers who are eligible for a social tariff can now access one without needing to switch providers or incur an early terminal charge.⁵¹ It therefore does not appear necessary for Ofcom to oblige providers to offer a social tariff under the powers granted to it by the Communications Act 2003.⁵² Rather the issue for social tariffs remains uptake and image.

As figure 11 below shows, while uptake has increased month on month – just 5.1 per cent of eligible consumers have opted for a social tariff and Ofcom reports that just over four million households continue to miss out.⁵³

A significant reason for low uptake is limited awareness that social tariffs exist. According to Ofcom, over half of households who are eligible for universal credit do not know about them and so therefore are very unlikely to apply for one.⁵⁴ 46 per cent of eligible households that do know about social tariffs say that they think they're not aimed at households like theirs.⁵⁵

Social tariffs are already advertised on the Help for Households website, but the government should use its other existing touchpoints with eligible consumers – the most obvious one being Universal Credit – to advertise social tariffs. A recent uptick in social tariff take-up suggests that advertisement – mostly by consumer groups and the media – has been a key driver of awareness and use. Claimants are already known to meet the eligibility requirements and their frequent engagement with the system could be used as an opportunity to advertise a social tariff during their job search.

Figure 11: Social tariff uptake rate



Source: Ofcom⁵⁶

51 Ofcom, *Affordability of Communications Services*, April 2023.

52 [Legislation.gov.uk](https://legislation.gov.uk), *Communications Act 2003*.

53 BBC News, *Millions of families miss out on cheap broadband*, April 2023.

54 Ofcom, *Half of low-income households in the dark over broadband social tariffs*, April 2023..

55 Ofcom, *Affordability of Communications Services*, September 2022.

56 Good Things Foundation, *National Device Bank*.

Recommendation 6: The Department for Work and Pensions should advertise social tariffs to Universal Credit recipients.

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The government should use its other existing touchpoints with eligible consumers – the most obvious one being Universal Credit – to advertise social tariffs. A recent uptick in social tariff take-up suggests that advertisement – mostly by consumer groups and the media – has been a key driver of awareness and use. Claimants are already known to meet the eligibility requirements and their regular engagement with the system could be used as an opportunity to advertise a social tariff during their job search

Once consumers become aware of social tariffs, they need to be convinced that a social tariff is right for them. The reduced cost of a social tariff compared to a usual commercial market price is itself an incentive and Ofcom estimates that consumers can save around £200 a year. Given the essential nature of internet access to day-to-day life, the government could take further steps to reduce the cost of packages for providers and consumers by cutting VAT on social tariffs. If providers can convince low-income consumers that social tariffs are comparable to existing commercial offers (see recommendation 8), then a further decrease in cost would provide targeted relief to the poorest households. Reducing the cost of social tariffs also provides a further safety net where low-income consumers choose to cancel their broadband due to cost.

Reducing VAT on social tariffs to 5 per cent would reduce the cost of monthly £15 social tariff by £2.25.⁵⁸ This would come at an estimated VAT loss to the government of £58 million pounds, assuming a 50% take up of social tariffs.

Recommendation 7: Government should reduce VAT on fixed broadband social tariffs to 5%.

Once consumers become aware of social tariffs, they need to be convinced that a social tariff is right for them. The reduced cost of a social tariff is already an incentive but given the essential nature of internet access the government could take further steps by reducing VAT on social tariffs.

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But price decreases alone are not enough. Research amongst those eligible for broadband social tariffs has found that 42 per cent of eligible consumers believe that social tariffs are less likely to be reliable because they are cheaper.⁵⁹ This, however, is not the case for many providers. UK internet speeds average at 59.4 megabits per second (Mbps) according to Ofcom and many social tariffs provide similar speeds.⁶⁰ Where providers do not, we recommend that they should raise them to around the average speed. Providers should also take steps to help consumers compare the speeds they currently receive to what they could expect to receive on their new tariff.

57 Ofcom, *Half of low-income households in the dark over broadband social tariffs*, April 2023.

58 Good Things Foundation, *Submission to House of Lords Communications and Digital Committee Inquiry*, 2023.

59 Ofcom, *Affordability of Communications Services*, April 2023.

60 Ofcom, *UK Home Broadband Performance: The Performance of fixed-line broadband delivered to UK residential consumers*, October 2022. BT offers a 67 Mbit/s offer and Virgin Media offer a 54 Mbit/s.

Recommendation 8: Broadband providers should improve their social tariff speeds to the UK average speed and take steps to help consumers eligible for a social tariff compare the speeds they currently receive to the speeds they can expect.

Price decreases alone are not enough. Research amongst those eligible for broadband social tariffs has found that 42 per cent of eligible consumers believed that social tariffs are less likely to be reliable because they are cheaper. Providers should therefore take steps to help consumers compare the speeds they currently receive to the ones they could expect to receive on their new tariff. This should include contacting eligible consumers to inform them of the comparable speeds of social tariffs.

Finally, in *Over the Odds*, we noted that some social tariff providers reserve their social tariffs for existing customers and suggested that some consumers may find themselves trapped out of a tariff because they cannot access the provider they would like.⁶¹ The evidence presented above in figure 2 demonstrates that consumers without the internet are more likely to be on low incomes – exactly the type of consumer social tariffs are meant to aid. However, these consumers can't always access social tariffs because some providers restrict them to existing customers. As a result, we recommend that firms provide social tariffs for digitally excluded Universal Credit claimants who are not pre-existing customers.

Recommendation 9: Broadband companies should provide a social tariff for digitally excluded Universal Credit claimants who are not pre-existing customers.

In *Over the Odds*, we noted that some social tariff providers reserve their social tariffs for existing customers and suggested that some consumers may find themselves trapped out of a tariff because they cannot access the provider they would like.⁶² Our new analysis of Understanding Society appears to confirm this. It suggests that while only 2.84 per cent of 18-64 year olds lack access to the internet at home, those that are offline are significantly more likely to be unemployed than the national average. We therefore recommend that firms provide social tariffs for digitally excluded Universal Credit claimants who are not pre-existing customers.

Capability

Without digital skills, many consumers will struggle to realise the possibilities presented by their access to devices and data. Yet poor digital skills appear commonplace. In 2022, the Centre for Economics and Business Research (CEBR) estimated that some 10.6 million people lacked the eight foundational digital skills required for life.⁶³ Without such basic skills as being able to open browsers, change passwords, and set up a Wi-Fi connection, many consumers are unlikely to be able to take full advantage of the internet to make savings from shopping around.

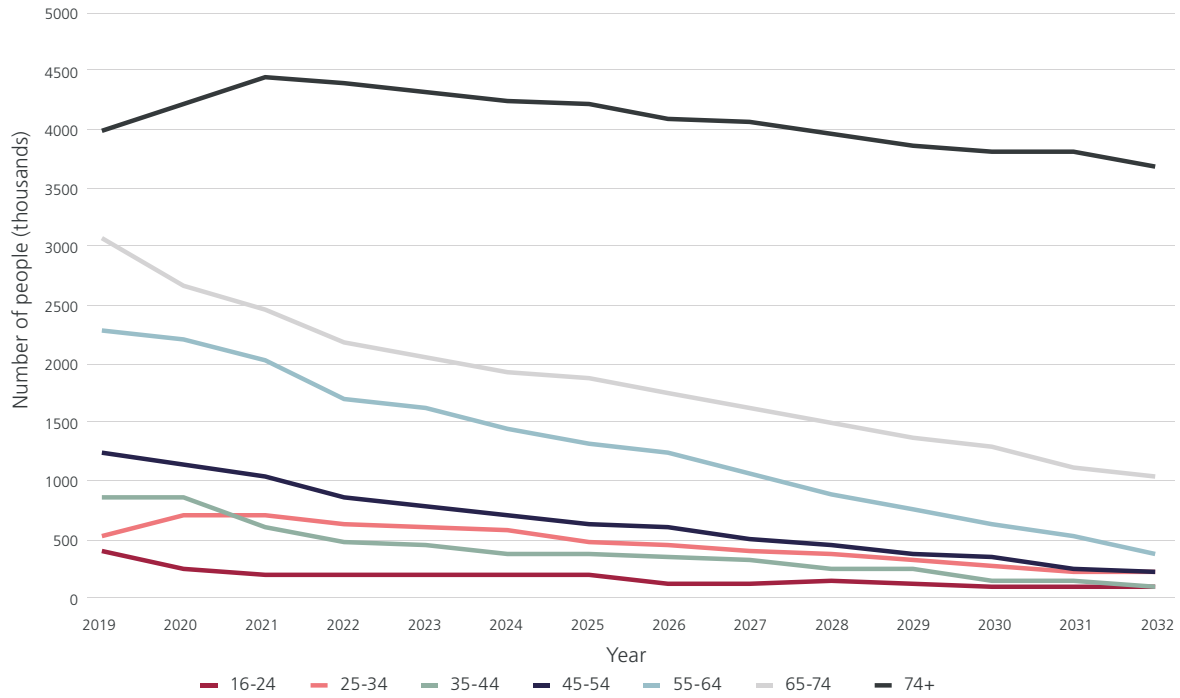
While an estimated 474,000 people gain these skills organically by teaching themselves or learning from others each year, according to the CEBR, the slow rate of change means that 5.8 million people will continue to lack these skills by 2032 unless a change of pace occurs. As figure 12 below shows, those most likely to lack digital skills by 2032 are those in the oldest age groups, with almost all people below the age of 44 having gained these skills by 2032.

61 Centre for Social Justice, *Over the Odds: Next Steps for dismantling the poverty premium*, November 2022; MoneySavingExpert, *On benefits? You may be due cheap, long-term 'social tariffs'*, May 2023.

62 Centre for Social Justice, *Over the Odds: Next Steps for dismantling the poverty premium*, November 2022; MoneySavingExpert, *On benefits? You may be due cheap, long-term 'social tariffs'*, May 2023.

63 *Ibid.*

Figure 12: Number of people without basic digital skills without intervention, 2019-2032 (thousands).

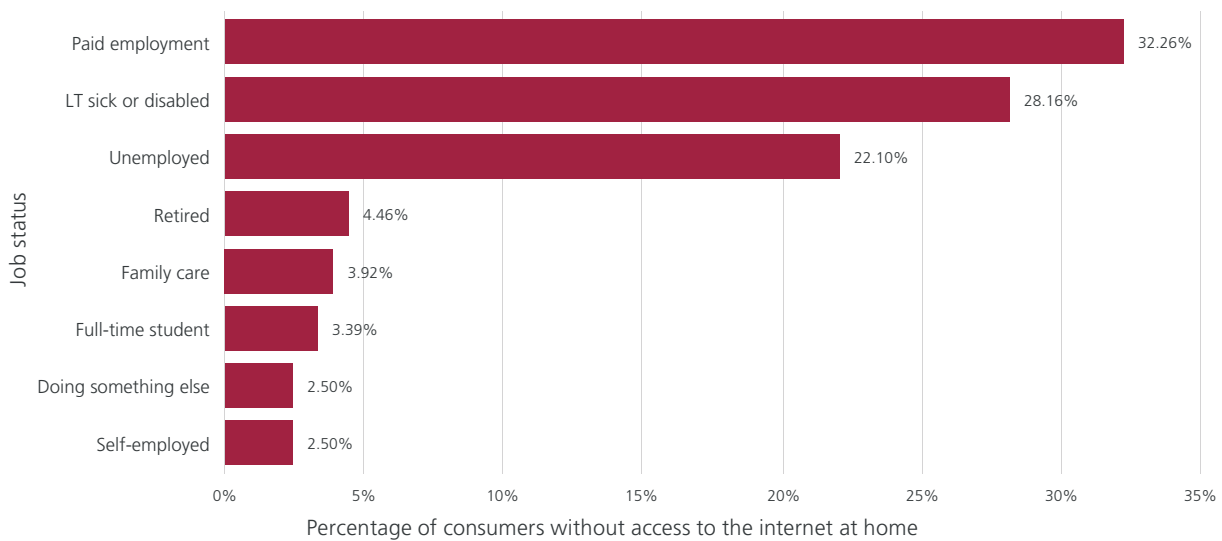


Source: Centre for Economics and Business Research and Good Things Foundation.

2032 remains a significant period of time to wait for consumers of all ages to gain digital skills organically. This is especially true for those of working age. For those in work, evidence suggests that they are more likely to be on low incomes than those with higher digital skills.

Additionally, our new analysis of Understanding Society appears to suggest that while only 2.84 per cent of 18-64 year olds lack access to the internet at home – a reasonable proxy for limited digital skills – they are significantly more likely to be unemployed than the national average. Figure 13 below shows that over a fifth are unemployed and this amounts to about 250,000 people.

Figure 13: Job status for working age (18-64) consumers who lack access to the internet at home



Source: CSJ Analysis of the UK Household Longitudinal Survey (Understanding Society) (n = 325)

Without access to the internet, these consumers are likely to have a more difficult time finding employment or well-paid employment and are therefore more likely to benefit from earlier intervention to improve their digital skills. Improved skills could help them access work or higher paid work and the tax receipts gained from this employment could be used to fund a wider intervention to improve digital skills across a broader age spectrum.⁶⁴

In the past, the Government, in the form of the Department for Education, has supported digital skills programmes, such as the Future Digital Inclusion Programme, which focussed on supporting people who were unemployed and/or with poor digital skills.⁶⁵ Ending in 2021, the programme supported over 1.5 million people over a period of seven years learn basic digital skills – 20 per cent of which went on to find employment.⁶⁶ Furthermore, 74 per cent accessed online government services for the first time, reducing the overall cost of delivering those services.⁶⁷

Tailored programmes such as the FDI allow users with a variety of needs to improve their digital skills in pursuit of a specific outcome, such as employment or savings.

Analysis conducted by the Centre for Economics and Business Research suggests that it costs on average between £49 to £434 per learner and that the expected cost per year to support 508,000 people to improve their digital skills is £139.6 million pounds for both capital and operating costs.⁶⁸ It suggested that supporting 508,000 people a year would wipe out digital exclusion by 2032. However, the real cost of such a programme could be significantly lower and in the past the DfE has reported reaching almost 800,000 people at a cost of £9.5 million pounds or approximately £12 per learner.⁶⁹ The funds required could be sourced from the forthcoming expansion of the Dormant Assets Scheme – which is estimated to release £641 million from the insurance, pensions, and securities sector.⁷⁰

Improved digital skills across the population has the potential to deliver significant financial dividends, with an estimated £9.48 returned for every £1 invested in the form of government efficiency savings, corporate savings, reduced demand on health services, increased employment, higher earnings and increased government revenue.⁷¹

As part of a new UK digital inclusion strategy, we recommend that a new digital skills programme should aim to support a further 1 million people to improve their digital skills, spread across a five-year period. The programme should focus specifically on learners who are unemployed in the first part of the programme.

64 Centre for Economics and Business Research, *The economic impact of digital inclusion in the UK*, July 2022.

65 Written evidence submitted by Good Things Foundation.

66 Written evidence submitted by Good Things Foundation.

67 Written evidence submitted by Good Things Foundation.

68 Centre for Economics and Business Research, *The economic impact of digital inclusion in the UK*, July 2022.

69 GOV.UK, *Digital skills and inclusion – giving everyone access to the digital skills they need*, 11 March 2017.

70 Financial Conduct Authority, *Expansion of the Dormant Assets Scheme*, CP22/9, May 2022.

71 Centre for Economics and Business Research, *The economic impact of digital inclusion in the UK*, July 2022.

Recommendation 10: The Department for Education should commit funding for a long-term digital skills programme targeted at unemployed people and those with limited digital skills.

The Department for Education should commit to funding a long-term digital skills programme targeted at unemployed people and those with limited digital skills over a period of five years.

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We recommend that a new UK digital inclusion strategy should aim to support a further 1 million people improve their access to digital skills spread across a five-year period with a specific focus on learners who are unemployed in the first part of the programme. The tax receipts and savings gained from employment should be used to fund a wider programme to improve digital skills across a broader age spectrum at a lower cost. This programme should be delivered by small, localised providers and referred to by Job Centres as a condition of Universal Credit.

72 Centre for Economics and Business Research, *The economic impact of digital inclusion in the UK*, July 2022.

73 GOV.UK, *Digital skills and inclusion – giving everyone access to the digital skills they need*, 11 March 2017.

74 Financial Conduct Authority, *Expansion of the Dormant Assets Scheme*, CP22/9, May 2022.

75 Centre for Economics and Business Research, *The economic impact of digital inclusion in the UK*, July 2022.

List of recommendations

Recommendation 1: Convene poverty premium stakeholders to discuss how to alleviate the premiums created by digital exclusion

Recommendation 2: The Department for Science, Innovation, and Technology should set out a new Digital Inclusion Strategy

Recommendation 3: The Help for Households campaign should direct people to ways they can recycle devices.

Recommendation 4: Government should lead by example and donate disused devices after they have been wiped of sensitive material.

Recommendation 5: Government should explore opportunities to expand the Right to Repair to include laptops and smartphones.

Recommendation 6: The Department for Work and Pensions should advertise social tariffs to Universal Credit recipients during their job search.

Recommendation 7: Government should reduce VAT on fixed broadband social tariffs to 5 per cent, putting it in line with other essentials.

Recommendation 8: Broadband providers should take steps to help consumers eligible for a social tariff compare the speeds they currently receive to the speeds they can expect.

Recommendation 9: Broadband companies should provide a social tariff for digitally excluded Universal Credit claimants who are not pre-existing customers.

Recommendation 10: The Department for Education should commit funding for a long-term digital skills programme targeted at unemployed people and those with limited digital skills.

Appendix 1

In an increasingly digital world, the way we shop has and continues to change. Traditional shopping channels now face significant competition from online providers and evidence shows that 25.2 per cent of all retail transactions are now performed online.⁷⁶

One key reason for this shift is that buying products and services online tends to be more cost-effective compared to purchasing them from physical retail outlets. For this report, we wanted to understand how purchasing goods and services offline can be more expensive than if they were acquired online. To do this, we provide an illustrative example of a number of transactions across some basic goods and services. These include different forms of insurance, phone contracts, food, and train travel.

Below, we detail how we reached each cost in our illustrative example.

Car insurance – We input the same vehicle and driver details into three price comparison websites to find the cheapest car insurance prices online. To find the cheapest offline price we used each price comparison website, separately searching from cheapest to most expensive to find the cheapest car insurance providers that had a physical shop or customer service telephone number. This left us with three car insurance providers to contact. It turned out that the cheapest car insurance provider with an offline option had a telephone number. We phoned the insurance provider giving them the same vehicle and driver details and noted the prices that they offered. We selected the cheapest option both online (£567.74) and over the phone (£580.35).

Home insurance - We input the same person and property details into three price comparison websites to find the cheapest home contents insurance prices online. To find the cheapest offline prices we searched from cheapest to most expensive across each price comparison website to find the cheapest home contents insurance providers that had a physical shop or customer service telephone number. This left us with three home contents insurance providers to contact. We phoned the insurance providers giving them the same information and noted the prices that they offered. We selected the cheapest option for both online (£40) and over the phone (£58.46).

Phone and contract – We input the same mid-range phone details into three price comparison websites to find the three cheapest phones with a two-year contract which provides data, minutes, and texts. To find the cheapest offline price we used each price comparison website, separately searching from cheapest to most expensive to find the cheapest home contents insurance providers that had a physical shop. Based on our online findings, we visited the three best-value phone shops to compare the prices they offer for the same mid-range mobile phone with those online. We selected the cheapest option for both online (£335.80) and in-store (£390).

⁷⁶ Office for National Statistics, *Internet sales as a percentage of total retail sales (ratio) (%)*, May 2023.

Sim-only contract - We used three price comparison websites to find the three cheapest two-year sim-only contracts. To find the cheapest offline price we used each price comparison website, separately searching from cheapest to most expensive to find the providers that had a physical shop. Based on our online findings, we visited the three best-value phone shops to compare the prices they offer for the same mid-range mobile phone with those online. We selected the cheapest option for both online (£168) and in-store (£359.76).

Train travel – Using an off peak train journey from London Victoria to Brighton we compared the cost of purchasing a ticket online versus at a train station. We compared prices for a ticket bought on the day of travel, and the online option automatically applied SplitSave which is an online tool to save money. We selected the cheapest option for both online (£26.30) and offline (£34).

Food – We selected twenty everyday food items that supermarkets list as their most popular items. Using two major supermarkets, we bought the items online and at small local supermarkets. We amalgamated the costs of the one-off purchase and produced a mean cost for a basket of goods bought online (£21.44) and in-store (£32.18).

Left Out

How to tackle digital exclusion and
reduce the poverty premium

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The Centre for Social Justice
Kings Buildings
16 Smith Square
Westminster, SW1P 3HQ
t: +44 (0) 20 3150 2326

Twitter: [@csjthinktank](https://twitter.com/csjthinktank)

www.centreforsocialjustice.org.uk

