GREATER MANCHESTER POVERTY ACTION

The Poverty Premium in Greater Manchester

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About Greater Manchester Poverty Action

Greater Manchester Poverty Action (GMPA) is a not-for-profit organisation, based in Greater Manchester, working to address poverty across the city region. We convene and network organisations from across the public, private and VCSE sectors to foster collaboration and innovation and to maximise the impact of efforts to address hardship and deprivation.

We carry out research and campaign for changes in policy, both locally and nationally, so that the structural and systematic causes of poverty are addressed.

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The research informing this report was conducted by Graham Whitham and Mahroz Azmat during July and August 2018.

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Introduction

The 'poverty premium' is a term used to describe the situations where low income consumers face higher costs for everyday goods and services. Those on low incomes can face higher costs:

- because of restricted access to financial products such as overdrafts or low interest loans,
- because of the payment method they use,
- because they are less able to buy in bulk, or
- because of an inbuilt disadvantage within a marketplace (e.g. higher insurance premiums for people living in deprived areas).

Researchers and campaigners in the UK have highlighted the potential extra costs facing low income consumers on a number of occasions in recent years. A study in 2016 showed that the average extra cost being faced by low income households in the UK amounted to £490[i]. Though the total extra costs facing a low income family across credit, insurance and energy bills can be in excess of £1000 per year.

This research has helped influence action at central government level to address the poverty premium in certain markets -for example capping prepayment meter charges and the total cost of payday loans- and there has been a growth of initiatives aimed at combatting the poverty premium such as the Fair by Design Fund[ii]. However, the problem remains, and at a time of ongoing financial pressures on household budgets, reducing the extra costs facing low income households would significantly alleviate that pressure.

Research into the poverty premium in Greater Manchester is limited. This briefing sets out research looking at the potential extra costs a typical low-income family in Greater Manchester could face for everyday goods and services and looks at other areas of spending that could be subject to a premium. The research finds that:

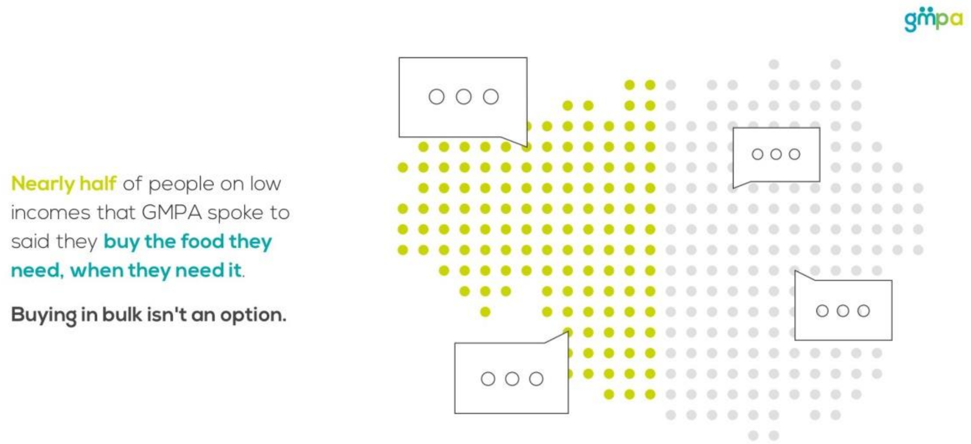
- A typical low-income family in Greater Manchester could be paying an annual premium of £1,096.
- People shopping at local convenience stores in deprived parts of Greater Manchester could be paying 36% more for food and household items.

Figure 1: Illustrating the poverty premium in Greater Manchester

To help inform this research, 101 low income residents from across Greater Manchester completed an in-depth questionnaire about spending choices and habits. The questionnaire aimed to understand the financial options and choices available to people on low incomes, with a view to understanding the extent to which low income residents in the city region are at risk of different elements of the poverty premium. The questionnaire found that among low income residents in Greater Manchester:

- Two-thirds reported that they don't have access to a bank account overdraft facility.
- A quarter reported borrowing money to pay for everyday living costs and bills.
- Nearly half said that they don't use the internet to access the best deals.
- Half use a prepayment meter to pay for electricity and gas.
- Over a third said they would buy new household items on credit through a rent-to-own store or catalogue.

Figure 2: Illustrating how low income residents in Greater Manchester shop for food



Whilst some of the levers for addressing the poverty premium lie at a central government level, understanding the issue in Greater Manchester in more depth would allow us to better consider how we can act locally to address it. This research is a first step, however GMPA wants to see further research across the city region to understand the scale of the poverty premium locally. To further our understanding of how the poverty premium can be tackled we have published a series of eight articles alongside this report that set out a range of different responses to the needs of low-income consumers that could help reduce exposure to the poverty premium.

These articles show that action can be taken locally to address the poverty premium. Specifically, Greater Manchester Poverty Action would like to see:

- Greater promotion of and support for credit unions in Greater Manchester so that more people can access low interest loans.
- Support for food pantries (food clubs that provide food to people in return for a small membership fee) and other initiatives that directly combat the poverty premium.
- Local authorities acting as the first port of call for people facing a financial crisis so that people are not driven into the arms of high interest lenders.

Background to the poverty premium

In the marketplace for goods and services it is possible that people on low incomes can end up paying more due to a range of different disadvantages – known as the poverty premium.

The poverty premium is the concept that people on low incomes pay more in absolute terms for everyday goods and services. That is, instances of one consumer paying a higher amount for the same item than another consumer, where the likelihood of this occurring is largely dependent on, or heavily related to, the first consumer being less well off than the second and/or financially excluded. This is not the same as people on low incomes paying more as a percentage of their income on goods and services.

The concept that the 'poor pay more' was developed by Caplovitz in the 1960s and considered the disadvantages faced by American consumers across a number of areas of household spending[iii]. In a development context the concept has been advanced to consider how people on low incomes in emerging economies can face higher costs because of the failure of businesses to meet the needs of low income consumers[iv].

Although there has been a range of research into financial capability and financial inclusion in the UK over a number of decades, until recent years exploration of the poverty premium in the UK has been limited. Campaigners calling for action to address poverty in the UK have tended to be at the forefront of efforts to advance the concept of the poverty premium and identify policy and marketplace responses.

Consideration of the poverty premium in the UK has increased in recent years. Campaigners have illustrated that the poverty premium could be costing some low income households in excess of £1000 per year (see appendix for further details). A study in 2016 showed that the average extra cost being faced by low income households in the UK amounted to £490[v]. These pieces of research have helped influence action at central government level to address the poverty premium in certain markets (for example capping prepayment meter charges and the total cost of payday loans) and resulted in the growth of initiatives aimed at combatting the poverty premium such as the Fair by Design Fund[vi].

The poverty premium in the UK manifests in a number of ways. Research on how approaches to regulation can help address the poverty premium identified four 'types of poverty premium'[vii]: (i) households on low incomes which have utility tariffs that cost more than average for consumption; (ii) households on low incomes which have relatively low consumption of utilities can pay more on average per unit consumed; (iii) households which pay additional charges or higher prices because of the way they carry out transactions; and (iv) low income households that can pay very high interest rates on loans to buy basic household goods and other necessities. This categorisation is useful in broadening our understanding of the scope of the poverty premium in the UK.

Fair By Design has built on this categorisation by identifying three drivers of the poverty premium in the UK:

- Firstly, the 'unfair cost of living' means that low income households are penalised because they can't afford to pay for things through one-off annual payments and have to opt for payment methods that end up being more expensive. Insurance premiums are another way in which this unfairness manifests, with deprived areas usually being deemed a higher risk by insurance companies and therefore being subject to higher premiums.

- Secondly, the 'myth of the super-consumer' means policymakers and others assume people are able to shop around and identify the best deals. The reality is the market is often complex and overwhelming, particularly for those who struggle to get through each day. Where people do switch, they generally do this after comparing prices online but lower income groups are more likely to be digitally excluded.
- Thirdly, Fair by Design argues that 'one size doesn't fit all', and that the products and services we require on a day-to-day basis haven't been designed with low income consumers in mind. For example, large numbers of people are on zero hours contracts, paid weekly with uneven income levels. For people in those situations, paying bills on a monthly basis, which is often the norm for things like utility bills and council tax, is unmanageable[viii].

Why does this matter? The poverty premium may affect the ability of households to meet basic needs. For example, having to pay more for energy because of pre-payment meter use may result in a household cutting back on keeping the house at an adequate temperature or cutting back on other essentials such as food. Even if basic needs can still be met within the household budget, despite the extra costs faced, the reduction in disposable income is likely to limit the ability of the household to achieve a decent standard of living.

Tackling the poverty premium therefore can help alleviate the pressure facing low income households. It can free up disposable income among low income households so that more money is spent in the local economy and reduce the need for other interventions to support people who are experiencing poverty and hardship. Given that low income households have the least amount of money to cope with every day and unexpected/one off costs, as well as the least elasticity to cope with rising living costs, understanding and then addressing the poverty premium is a means of maximising the availability of financial resources among these households.

Methodology

The research findings in this report are based on data collected in July and August 2018.

The poverty premium illustration replicates the methodology developed by Save the Children and used by researchers and campaigners on several occasions (detailed in the appendix). The illustration presented in this report uses Greater Manchester specific postcode and other data where applicable to develop an illustration for the city region for the first time. Additional information about the methodology used to develop each individual element of the illustration is provided alongside the findings.

Additional desk-based research was conducted to identify the additional costs those on low incomes might face in other areas of household spending that are not covered in the illustration.

The data on food costs was gathered from ten retailers (five supermarkets and five local convenience stores) across Greater Manchester. All of the local convenience stores were located in areas of high deprivation. The basket of goods chosen was based on items used in a previous piece of research exploring the extra costs faced by low income consumers[ix].

The data on transport costs was sourced from the Transport for Greater Manchester website[x].

The data presented in this report on spending choices and habits among low income residents was gathered via an in-depth questionnaire. A total of 101 people on low incomes from Manchester, Salford, Stockport and Trafford completed the questionnaire. The key findings from the questionnaire are detailed throughout the report.

Findings

Illustrating the poverty premium in Greater Manchester

The poverty premium illustration presented in table 1 replicates the methodology developed by Save the Children[xi] and used by researchers and campaigners on several occasions to consider the extra costs facing low income households in the UK. This is the first time the illustration has been produced for Greater Manchester. It finds that the extra costs facing a typical low-income family in the region could amount to £1096.67.

Table 1: An illustration of the poverty premium in Greater Manchester 2018

	Typical cost	**Cost to low income family**	**Difference**
Loan for £500	£500	£757.78	**£257.78**
Household white goods	£233.50	£451.75	**£218.25**
Annual gas and electricity bills combined	£935.20	£1,077.83	**£142.63**
Home contents insurance	£51.46	£61.33	**£9.87**
Car insurance	£505.22	£973.36	**£468.14**
Total:	**£2225.38**	**£3322.05**	**£1096.67**

Elements of the poverty premium

The following section provides further information on each element of the illustration shown in table 1.

A loan for £500

People on low incomes are less likely to have access to low or no interest financial products through credit cards and overdraft facilities. Limited savings can mean people needing to borrow money to meet unexpected costs such as a broken cooker or car repairs. In recent years people have increasingly needed to borrow cash to meet the cost of everyday essentials. A quarter of people on low incomes who completed our questionnaire said they were currently repaying a cash loan and 90% of those said they had borrowed money to pay for day-to-day essentials.

Table 1 shows the cost of a £500 loan repaid over a three-month period (averaged across four well-known pay-day lenders)[xii]. The cost of borrowing a relatively small amount of money from a high interest lender can be substantial once the loan is fully repaid, totalling £757.78 – a differential of £257.78 when compared to someone who does not need to borrow in the first place.

Whilst action has been taken in recent years to address the scourge of payday lenders, problems still exist. Regulation of doorstep lenders (organisations offering loans to people in their homes), for example, remains insufficient and the decline of local welfare assistance schemes[xiii] and limitations of credit unions in some areas can mean the borrowing options of people on low incomes is restricted.

White goods

Buying household white goods from rent-to-own stores allows people to pay for items through small regular payments over a specified period. The interest (and charges) mount up and the total cost of paying for the item can be significantly more than buying the item in one go.

Buying items through rent-to-own stores is more expensive, but many people find the small weekly repayments more manageable than paying for an item outright[xiv]. Purchasing an item outright may not be possible for some people on low incomes. Of those who completed GMPA's questionnaire, over a third said they would buy new household items on credit through a rent-to-own store or catalogue. Four in ten said they would buy the item outright if possible, with the remainder saying they would either not buy the item or find another means of paying for it.

The Greater Manchester illustration shows the average cost of buying four household items (see table 2) through a well-known rent-to-own store and outright from a well-known high street retailer. All items were available to consumers in stores across Greater Manchester during summer 2018. The average extra cost of buying these household items from a rent-to-own store and making repayments over a 156-week period compared to buying them outright is £218.

Table 2: Showing the difference in cost of purchasing four household goods outright compared to purchasing from a rent-to-own store

White Good	Bought outright	Rent to own cost	Difference in price
Beko 55cm fridge freezer (white)	£275.00	£468.00	£193.00
Beko 6kg washing machine (white)	£269.99	£468.00	£198.01
Samsung Easy view combination Microwave oven	£219.00	£585.00	£366.00
Henry Xtra vacuum (Red)	£169.99	£286.00	£116.01
Average	**£233.50**	**£451.75**	**£218.25**

Figure 3: Illustrating the extra cost of purchasing household goods through rent-to-own stores

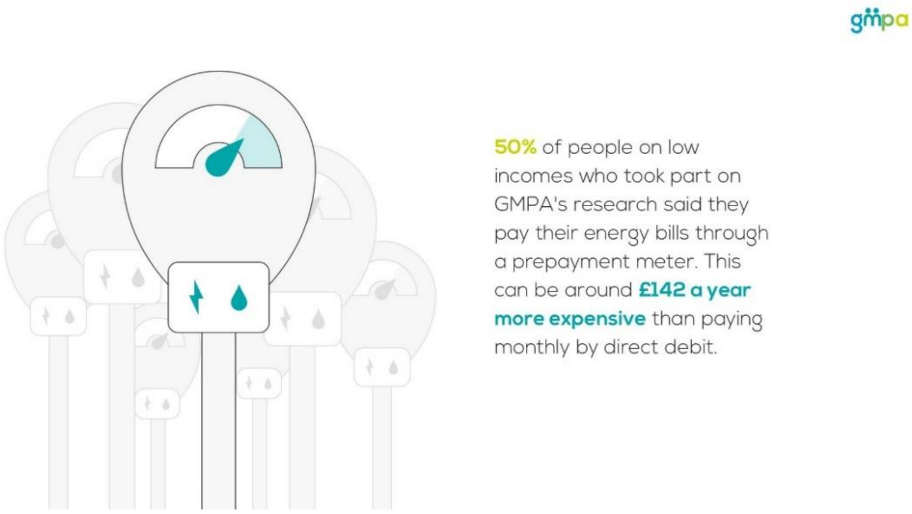
Annual gas and electricity bill

Table 1 shows the extra cost of paying for annual electricity and gas usage by prepayment meter as opposed to paying monthly by direct debit. The illustration is based on average household electricity and gas consumption as reported by the Department for Energy and Climate Change[xv] and compares paying by monthly direct debit to paying through a prepayment meter (averaging the annual cost across several energy providers).

People on low incomes are more likely to pay for electricity and gas through prepayment meters than better off households. Half of the people who completed GMPA's questionnaire said they paid for energy through a prepayment meter.

Paying through a prepayment meter has traditionally been a more expensive option and, whilst there have been steps to reduce the extra costs faced by prepayment meter customers in recent years, the illustration shows that this remains a more expensive option for consumers in Greater Manchester and across the UK. Table 1 shows that the annual extra cost facing a household paying for energy through a prepayment meter could amount to £142.

Figure 4: Illustrating the proportion of low income residents in Greater Manchester who pay their energy bills through a prepayment meter



Home contents insurance

Home contents insurance is typically more expensive in deprived areas. The illustration keeps all aspects of the household the same other than postcode and payment method. A randomly generated selection of postcodes across Greater Manchester in deprived and non-deprived areas (using the Index of Multiple Deprivation) was used. For households in deprived areas the total cost shown is based on paying for home contents insurance by monthly direct debit payments and for households in non-deprived areas the cost shown is for annual payments. The illustration suggests the extra cost facing low income households is minimal (around £10), but it remains an example of where low income households face higher costs for the same product.

Car insurance

Table 1 shows the difference in the cost of car insurance between households in deprived and non-deprived areas. All variables (make and model of car, driver history etc…) except postcode were kept the same. Given the typical annual cost of car insurance we assume that both households in deprived and non-deprived areas have opted to pay by monthly direct debit. Using the same randomly generated postcodes used to compare home contents insurance, the extra cost of car insurance for households in deprived areas is, on average, £468.

Other areas of spending potentially subject to the poverty premium

The illustration of the poverty premium in Greater Manchester shown in table 1 replicates the approach taken to illustrating the poverty premium across the UK in previous years. However, there are other areas of household spending where people on low incomes can potentially face higher costs that aren't captured by the illustration. As part of this research we considered the extra costs people on low incomes in Greater Manchester could face in respect of food and other household items and transport costs.

Food and other household items

Recent research has highlighted the issue of 'food deserts' in the UK[xvi]. Food deserts are areas of deprivation where residents struggle to access good quality and affordable food. In such areas there can be limited access to a range of supermarkets making it more difficult to access the best deals and to buy in bulk. In areas where there are limited food retailer options people may be overly reliant on local convenience stores.

Comparing the average price of items at five supermarkets with the average cost at five convenience stores located in deprived parts of Manchester shows a clear price difference. Table 3 shows that the basket of goods was nearly £10 more expensive at the convenience store – a difference of 36%.

Figure 5: Illustrating the extra cost of shopping for regularly bought food and household items at local convenience stores in deprived parts of Greater Manchester

While no one is forced to use a local shop rather than a large supermarket, access, transport and financial liquidity constraints for bulk buying can be issues for people with limited financial resources. People on low incomes may be more likely to buy in small quantities and buy what they need when then need as opposed to buying in bulk, which can often be cheaper. Just under half of those who completed GMPA's questionnaire said they buy what they need, when they need it - meaning that they shop for food several times a week.

Table 3: Showing the difference in cost between purchasing a regularly bought basket of food and household items at supermarkets and local convenience stores located in deprived areas

	Average across 5 supermarkets	Average across 5 convenience stores located in deprived areas
Milk (1 pint)	£0.57	£0.65
Bread (1 loaf)	£0.49	£0.99
Butter (500g)	£0.91	£1.67
Eggs (half dozen)	£0.80	£1.18
Potatoes (per kg)	£0.87	£1.50
Cereal (500g)	£1.21	£2.59
Orange Juice (1L)	£0.89	£1.36
Apples (per kg)	£1.65	£1.48
Tea (80 bags)	£1.01	£2.17
Washing up liquid (500ml)	£0.52	£1.14
Baby milk powder (800g)	£7.65	£10
Baby nappies (24)	£1.30	£3.03
Total	**£17.87**	**£27.76**

Transport costs

Saving money by making one off payments as opposed to a series of payments over time (discussed above in relation to insurance costs) is a payment that extends to a number of areas. For example, travelling to work can be extremely expensive and the cost is regularly cited by people as a barrier to work. Travel costs can seriously limit the viable search for work area but, nevertheless, most working people do have to travel beyond their own neighbourhoods. If travelling by train, tram or bus, people can often take advantage of an annual season ticket, which tends to work out considerably cheaper than paying for a ticket everyday or every week. Employees in low-paid work are less likely to be able to make upfront payments because they don't have access to the cash required to do so and for those in part-time or insecure employment, there's little point in buying a season ticket.

Figure 6: Illustrating the extra cost of transport for those unable to purchase season tickets

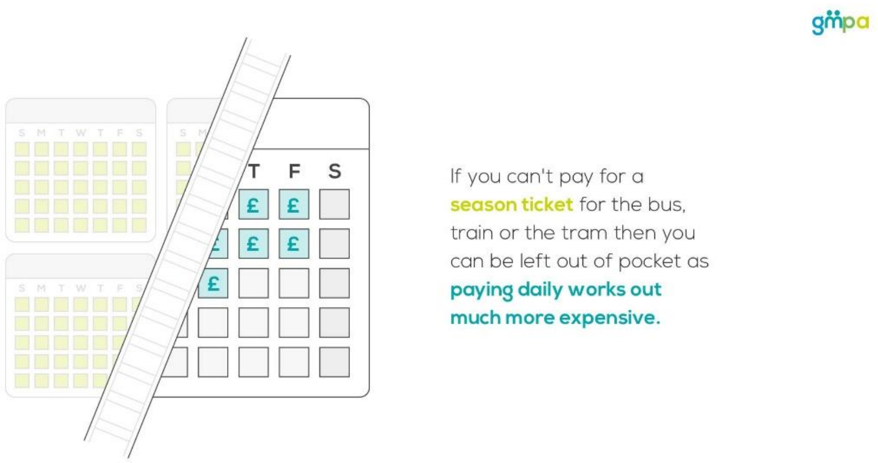


Table 4 shows the extra cost of purchasing daily or weekly tickets compared to purchasing an annual season ticket on Manchester's Metrolink system for someone commuting into Manchester city centre for work. For a relatively short journey into the city centre from Stretford, someone able to purchase an annual season ticket is able to save £354 compared to purchasing a return ticket everyday and £151 compared to purchasing a weekly pass every week over the course of a year. The saving for longer journeys is even greater. The difference in cost between an annual season ticket for someone travelling into the city centre from Rochdale and purchasing a weekly pass over the course of a year is £285. The difference in cost between an annual season ticket and purchasing a daily return ticket for the same journey is £481.

Table 4: Showing the price differentials of different ticket purchasing options on the Manchester Metrolink system

Departure	Destination	Cost of buying a daily peak return ticket over 12 months*	Cost of buying a weekly pass over 12 months**	Annual season ticket	Difference between daily ticket and annual season over course of a year	Difference between weekly pass and annual season over course of a year
Stretford	Manchester City Centre	£974.40	£770.80	£620	£354.40	£150.80
Hollinwood	Manchester City Centre	£1,345.60	£1,099.80	£880	£465.60	£219.80
Rochdale	Manchester City Centre	£1,531.20	£1,334.80	£1,050	£481.20	£284.80

**Assumes travelling to work 232 days per year. **Assumes purchasing 47 weekly passes over the course of a year.*

Responding to the poverty premium in Greater Manchester

Several reports have considered UK wide responses to the poverty premium in recent years. There has been less consideration of localised responses to the poverty premium, but devolution to city regions and the growth and development of local responses to poverty means there is potential in considering how we can address and mitigate against the poverty premium locally.

This report illustrates that the extra costs facing low income households in Greater Manchester could be substantial. It also finds that many people on low incomes in Greater Manchester are at risk of the poverty premium in a number of ways. People have reported that they don't have access to financial products such as bank account overdrafts that could help prevent them from needing to borrow from high interest lenders. A high proportion of people have reported that they pay for energy bills through prepayment meters and purchase goods from rent-to-own stores.

To further our understanding of how the poverty premium can be tackled we have published a series of eight articles alongside this report that set out a range of different responses to the needs of low-income consumers that could help reduce exposure to the poverty premium. These articles show that there are opportunities for policymakers, service providers and businesses to take action to address the poverty premium.

Improving public transport links between housing estates and shops in deprived areas could help ensure low income households are able access good quality, affordable food and address food deserts in Greater Manchester recently identified by the Social Market Foundation[xvii]. Food pantries in deprived communities can help offer an affordable alternative to expensive convenience stores. A social impact report of food pantries operated by Stockport Homes found that pantries can save members up to £650 a year[xviii].

Social housing providers can help people avoid having to purchase furniture and other household goods from rent-to-own stores by offering furnished tenancies. Orbit Housing Association trialled a scheme that left existing good quality floor and window coverings in properties when new tenants moved in. They found that not only was the scheme cost neutral to them, but that it helped put money in their tenant's pockets and allowed them to move in faster. They have since rolled the scheme out across their stock. The costs for the tenant of a furnished property can be deducted from their housing benefit as a service charge[xix].

Ethical alternatives to high interest rent-to-own stores exist across the country. The Furniture Poverty Hub estimates that there are 25 charities, social enterprises and housing associations in Greater Manchester who are providing affordable furniture to low income households[xx]. By re-using good quality furniture, electrical appliances and other household goods which are ordinarily destined for landfill, furniture re-use organisations help to minimise household debt, alleviate material poverty, and reduce the amount of household bulky waste in the region. However, these providers need support. Local authorities should consider how they can do this through promotion, support with identifying low cost rent premises and providing funding through local welfare assistance schemes.

Credit Unions in Greater Manchester have the potential to do even more to help address the poverty premium by supporting people to save and offering low cost loans. Credit unions help to improve communities and the lives of people within them by reducing the negative impacts of financial exclusion and high cost credit providers such as doorstep and payday lenders. A conservative estimate is that Greater Manchester Credit Unions save people over £12million per year in interest, which means more money to live on and to pay essential living costs[xxi]. This amount of money saved is increasing year on year and is money that stays in the local economy. To enable credit unions to grow and support more people they need stakeholders, partners and local businesses to consider opening either individual or Corporate Membership accounts and depositing excess funds.

Technology has a role to play in helping to address the poverty premium. New 'Fintech' companies are using technology to provide financial services in new ways, that eliminate marketing costs, and reduce risk, to provide lower priced products. These alternative approaches open up new opportunities for employers to help lower income workers. One example is the growth of salary-linked benefits that offer similar services to more traditional financial products, such as loans and savings. These benefits utilise online-first approaches and salary deduction to come up with new ways of doing things that are simple for consumers to access and manage, are more inclusive, and offer better value.

The Fair by Design Fund is supporting businesses who are developing tools that help remove the extra costs facing low income consumers. One example is *Wagestream* which gives workers financial freedom by giving them access to their earned wages at any time, rather than the more traditional (but purely arbitrary) weekly or monthly pay. It's helping to combat the payday loan industry and has a significant impact on wellbeing, by contributing to a reduction in financial stress.

Research by Greater Manchester Poverty Action has highlighted the collapse in crisis support in England since the government scrapped the discretionary social fund in 2013[xxii]. This has reduced the amount of support available to people needing support to live independently and people facing sudden financial hardship. Local welfare assistance schemes, operated by local authorities and intended to replace the discretionary social fund, offer ad hoc support and are not well publicised. Local authorities should work with statutory and VCSE sector partners to consider how local schemes could act as a first port of call for people facing a financial crisis. Better coordination of support would reduce the likelihood of people using high interest lenders when facing financial hardship.

Whilst some of the levers for addressing the poverty premium lie at a central government level, understanding the poverty premium in Greater Manchester in more depth allows us to better consider how we can act locally to address it. This research is a first step, however GMPA wants to see further research across the city region to understand the scale of the poverty premium locally. Initially GMPA is calling for Greater promotion of and support for credit unions in Greater Manchester so that more people can access low interest loans. We would like to see support for food pantries (food clubs that provide food to people in return for a small membership fee) and other initiatives that directly combat the poverty premium and for local authorities to develop local welfare assistance schemes so that they act as the first port of call for people facing a financial crisis.

Appendix

Previous illustrations of the poverty premium

Previous UK illustrations of the poverty premium are set out below (please note these have been reproduced to reflect the way were originally published). Other explorations of the poverty premium informed directly by the Save the Children methodology include:

- In 2015 Citizens Advice Scotland reported low income consumers were paying around 10% more for essential goods and services.[xxiii]
- In 2014 Toynbee Hall carried out research into the poverty premium in Tower Hamlets and suggested residents could face extra costs of £1014 against the items of spending listed in Save the Children's approach.[xxiv]
- In 2013 the JRF published research suggesting that low income consumers could face extra costs of 10p in every £1 for everyday goods and services.[xxv]
- A 2011 Church Action on Poverty report sets out 'real-life' experiences of the poverty premium.[xxvi]

Table 5: Poverty premium in 2017 – main table[xxvii]

	Typical cost	Cost to low income family	Difference
Loan for £500	£500	£944.84	**£444.84**
Basic household item: Cooker	£237.33	£780	**£542.67**
Cost to cash 3 x £200 cheques	£0	£49.50	**£49.50**
Annual electricity and gas bill combined	£1,249.55	£1,320.95	**£71.40**
Home contents insurance	£45.87	£53.11	**£7.24**
Car insurance	£470.04	£1,010.63	**£540.59**
Total	**£2502.79**	**£4159.03**	**£1656.24**

Table 6: An illustration of the poverty premium in 2013/14[xxviii]

Poverty premium in 2013/14	Typical costs	Costs to low income families	Difference
Loan for £500	£500.00	£929.51	**£429.51**
Basic household item: cooker	£249.00	£858.00	**£609.00**
Cost to cash 3 x £200 cheques	£0.00	£39.00	**£39.00**
Annual electricity and gas bill combined	£1,136.00	£1,377.00	**£241.00**
Home contents insurance	£64.33	£67.10	**£2.77**
Car insurance	£454.77	£772.74	**£317.97**
Total poverty premium in 2013/14	**£2,404.10**	**£4,043.35**	**£1,639.25**

Table 7: An illustration of the Poverty Premium 2010[xxix]

	Typical costs	Costs to low income families	Difference
Basic household item: cooker	£239.00	£669.24	**£430.24**
Loan for £500	£500.00	£750.00	**£250.00**
Cost to cash 3 x £200 cheques	£0	£36.00	**£36.00**
Annual electricity and gas bill combined	£881.06	£1,134.23	**£253.17**
Home contents insurance	£66.72	£98.64	**£31.92**
Car insurance	£309.82	£597.96	**£288.14**
Total Poverty Premium			**£1,289.47**

Table 8: Illustrating the poverty premium (2007)[xxx]

	Typical costs	Costs to low-income households
One expensive consumer good	£159.99	£405.00
One £500 loan	£539.00	£825.00
Three cashed £200 cheques	£0.00	£49.50
Annual gas bill	£609.70	£673.70
Annual electricity bill	£339.30	£368.20
One mobile phone	£315.96	£395.44
Home contents insurance	£465.85	£618.80
Car insurance	£475.48	£571.55
Total	**£2,905.28**	**£3,907.19**
Poverty premium	**£1,001.91**	

Quantifying the poverty premium

Research in 2016 quantified the number of low income households in the UK incurring different elements of the poverty premium and calculated the average cost per year to low income households. This is reproduced in figure 7.

Figure 7: Table showing key findings from Davies, S., A. Finney, and Y. Hartfree. "The poverty premium–when low-income households pay more for essential goods and services." (2016).

Table: Share of the premium annual poverty premium cost by premium type

Premium type	Low-income households incurring this %	Average premium per low-income household £ / year	Average premium as a share of the total %
Use of prepayment meters	33	£38	8
Non-standard billing methods	50	£33	7
Not switched to best fuel tariff	73	£233	48
Paper billing	49	£12	2
Area-based premiums	73	£84	17
Insurance for specific items	23	£27	6
Access to money	29	£9	2
Higher-cost credit	16	£55	11
Total	**99**	**£490**	**100**

[i] Davies, S., A. Finney, and Y. Hartfree. 2016. *The poverty premium–when low-income households pay more for essential goods and services*

[ii] See: http://www.fairbydesignfund.com/

[iii] Caplovitz, D. 1967. *The Poor Pay More*

[iv] Prahalad CK, & Hammond A. 2002. *Serving the world's poor profitably* Harvard Business Review 80(9); 48-57

[v] Davies, S., A. Finney, and Y. Hartfree. 2016. *The poverty premium–when low-income households pay more for essential goods and services*

[vi] See: http://www.fairbydesignfund.com/

[vii] Hirsch, D. 2013. *Addressing the poverty premium: Approaches to regulation* Consumer Futures/Joseph Rowntree Foundation, York

[viii] With thanks to Sarah Dunwell for contributing to this summary.

[ix] Purdam, K, Royston, S, & Whitham, G. *Measuring the "poverty penalty" in the UK* Significance 14.4 (2017): 34-37.

[x] https://www.tfgm.com/

[xi] See: Save the Children and Family Action, 2007. *The Poverty Premium: How poor households pay more for essential goods and services*

[xii] The repayment period differs from that used in previous illustrations of the poverty premium (showing the cost of repayments over 12 months) as many high interest lenders only offer short-term repayment periods.

[xiii] Whitham, G. 2018. *Local welfare assistance schemes – the urgent need for a new approach* Greater Manchester Poverty Action

[xiv] For further discussion see: Yusuf, H. & Lane, J. 2016. *Citizens Advice Hire purchase: Higher prices Problem debt in the rent to own market*

[xv] See https://www.gov.uk/government/collections/energy-consumption-in-the-uk for further information.

[xvi] Corfe, S. 2018. *What are the barriers to eating healthily in the UK?* Social Market Foundation

[xvii] Corfe, S. 2018. *What are the barriers to eating healthily in the UK?* Social Market Foundation

[xviii] Figures provided by Church Action on Poverty

[xix] Information provided by End Furniture Poverty

[xx] Many of these are shown in Greater Manchester Poverty Action's *Household items and repairs map*: https://www.gmpovertyaction.org/maps/

[xxi] Figures provided by Manchester Credit Union

[xxii] Whitham, G. 2018. *Local welfare assistance schemes – the urgent need for a new approach* Greater Manchester Poverty Action

[xxiii] See: http://www.cas.org.uk/system/files/publications/final_formatted_copy.pdf

[xxiv] See: http://www.toynbeehall.org.uk/data/files/Reports/The_Poverty_Premium_Report.pdf

[xxv] See: https://www.jrf.org.uk/blog/poor-are-still-paying-more-basic-utilities-and-financial-services

[xxvi] See: http://www.church-poverty.org.uk/news/pressroom/resources/reports/overtheodds

[xxvii] Data gathered by Graham Whitham on behalf of End Child Poverty (2017)

[xxviii] Kothari, P. Whitham, G. and Quinn, T. 2014. *A fair start for every child - Why we must act now to tackle child poverty in the UK* Save the Children (page 17).

[xxix] Save the Children. 2011. *The poverty rip off: The poverty premium in 2010*

[xxx] Save the Children and Family Action, 2007. *The Poverty Premium: How poor households pay more for essential goods and services*