



The Poverty Premium in Tower Hamlets

A report by Toynbee Hall

May 2014

TOYNBEE
HALL



For a future without poverty

Executive Summary

This research explores whether and to what extent low income residents in Tower Hamlets pay more for essential goods and services. The report shows that Tower Hamlets residents are likely to pay a Poverty Premium of up to £1,014 per year, consisting mostly of higher energy costs, car insurance and loans.

The research clearly shows that the key driver of whether or not residents pay the Poverty Premium is decided by service providers' behaviour. The environment created by providers – ranging from rewards for utility payments made by Direct Debit to supermarket bulk purchase discounts and lower out-of-town prices – offers a significantly reduced range of options available for those on lower incomes at unaffordable prices.

Financial capability and strong social networks can sometimes help reduce the level of the Poverty Premium; being able to compare and choose the cheapest available payment method and turn to family and friends for resources, such as free credit, can help residents pay lower prices compared to less financially capable or more isolated individuals.

The term, Poverty Premium, is used to describe the increased costs paid for essential goods and services by people in poverty or on low incomes.

Whilst strong financial capability is important as it enables residents to avoid some of the impact of the Poverty Premium through choosing the best option out of the limited range available to them, the key issue is that the range of financial choices available to low income consumers is restricted to a limited number of options charged at higher prices. This research highlights that investment in financial capability alone cannot eradicate the problem of the poorest paying more. For this to stop, providers need to change the way they currently behave, so they stop charging those with the least purchasing power the most for comparable goods and services. The market also needs to increase the supply of affordable credit for essential purchases, such as basic white goods and furniture.

During the research phase, we interviewed 220 residents about how the Poverty Premium affects them through a mixture of surveys and in-depth interviews. This report explores their stories, both presenting the prices they pay for goods and services, and sharing their individual experiences and opinions. Their stories show that health, well-being and opportunities for both individuals and families are significantly and negatively affected by the opportunity cost created by the Poverty Premium, having a detrimental impact on their social mobility and economic development.

As part of Toynbee Hall's commitment to reducing the impact of the Poverty Premium on people's well-being and opportunities, this research makes three key recommendations for policy-makers and service providers alike: ensure payment providers and financial services offer adequate choices to those on lower incomes instead of penalising them; support social network safety nets; and deliver more effective financial capability programmes.

This research was designed and conducted by Debra Hertzberg, Max Stanford and Sian Williams at Toynbee Hall, and the following community researchers who were specifically recruited and trained for this research, and for whose efforts and support we are extremely grateful:

Elizabeth Dirth	Zainab Hamoudi
Alex Ma	Bethan Peach
Jeanette Scott	Raynal Somiah
Nadine Spanyol	Elliot Trevithick
Rachel Walker	Paul Wheeler

A special thank you as well to Alexan Westlake, Save the Children, and Jane Perry, Church Action on Poverty, who shared their expertise and helped with the project at the very beginning.

TOYNBEE
HALL 
For a future without poverty

Key findings

- The financial services and payment mechanisms environment overwhelmingly dictates the range of choices people have; so improving that environment will have the greatest positive impact.
- Financial capability and social networks are both essential to reducing the impact of the Poverty Premium in the absence of suitable products.
- However, financial capability and social networks can only mitigate the impact caused by an inadequate payment services environment.
- The key contributing factors to the Poverty Premium are fuel, car insurance and loans
- Specialist products and services exist for some needs but not for others.
- There is a low take up of insurance, increasing costs when a crisis occurs.
- There is a low take up of credit, mainly due to limited awareness and accessibility. Even when people know about these products, they have a poor understanding due to inadequate information and there are too few suitable options on offer.
- People don't always pay a premium for every financial transaction. Because someone incurs additional costs for one type of transaction, it doesn't mean they will for all types. And, similarly, being able to avoid paying a premium in one area of their financial life doesn't mean they can avoid paying it everywhere.
- Financial capability sometimes means people can access products and services outside of the mainstream which better support their needs.
- This capability sometimes means people can make better choices, but in the lowest income brackets people are often still forced to choose the best of a bad bunch; it is better to buy from a catalogue than a rent-to-buy store, but better still would be to have access to cheap credit.

Key recommendations

To tackle the Poverty Premium in Tower Hamlets, effort is required at all three of the following levels:

- Improving the payment services environment through addressing the mismatch between supply and need, including payment penalties and rewards.
- Fostering social networks to develop and support resilience.
- Improving financial capability through effective programmes.

Contents

6	Chapter 1: Introduction
10	Chapter 2: Experiences of the Poverty Premium in Tower Hamlets
28	Chapter 3: The Wider Impact
30	Chapter 4: Avoiding a Poverty Premium: What makes it easier?
35	Chapter 5: Avoiding a Poverty Premium: What makes it more difficult?
37	Chapter 6: What did people think about paying a Poverty Premium?
38	Chapter 7: Discussion and Recommendations



I don't see why anyone should have to pay more. Especially for their basic needs." (Keith)

In 2007 Save the Children coined the concept of a Poverty Premium to describe the extra costs that families in poverty pay to access essential goods and services, such as food, fuel and credit¹. This premium arises because those in poverty pay higher costs per unit for particular goods and services due to having limited payment choices. This extra cost was calculated to be in the region of £1,000 in 2007, rising to £1,280 by 2012².

Table 1: Components of the Poverty Premium

Component of Poverty Premium:	Reason that the Poverty Premium is paid:
Borrowing	Those who are on lower incomes, or unemployed, are often deemed higher lending risks and so are limited to higher cost credit.
Access to cash	Lower income areas tend to have fewer fee-free cash machines. Being unbanked or needing money quickly creates a need to pay to cash cheques.
Fuel	Direct Debits attract discounts, but do not provide flexibility and fines will be incurred if there are insufficient funds to make a Direct Debit payment. Compared with more expensive prepayment meters, the daily or weekly costs are less visible when paying by Direct Debits or quarterly bills.
Insurance	Insurance premiums are often more expensive in lower income areas, which tend to also be areas with a higher risk of crime, fire and flooding.
Food	Those on lower incomes are less likely to live within walking distance of large supermarkets where produce is cheaper than local supermarkets and stores. Deals often take the form of multibuy which, for many people on low incomes can cost too much in one purchase.
Mobile phones	Those on lower incomes are more likely to use 'pay as you go' services which provide more control, but cost more than contract services.



This Poverty Premium comprises of a number of areas in which people in poverty pay extra to access goods or services. It is driven by two main factors: an individual can be pushed out of cheaper goods and services, as is often the case with banking and credit; or they self-exclude from goods or services which could allow them to use strategies for managing money more effectively on a lower income. This self-exclusion can clearly be seen, for example, in the case of Direct Debt discounts, a payment mechanism which those on lower incomes often avoid. This is because people on low or variable incomes worry they will not be able to make the automatic payments and will instead incur refused payment fines.

The Poverty Premium is driven by two main factors: an individual can be pushed out of cheaper goods and services, or they self-exclude from goods or services.

¹ Save the Children, 2007, The Poverty Premium: How poor households pay more for essential goods and services.
² Save the Children, 2010, The UK Poverty Rip Off: Briefing: http://www.savethechildren.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf

Context

The UK was in recession when Save the Children's first Poverty Premium report was published in 2007, and there was widespread acknowledgement that greater demands were being placed on household budgets as the costs of basic goods increased at a rate beyond income and benefits. This trend has continued, with many households in receipt of benefits now facing further income reduction as a result of a number of changes to the benefits system. These changes include the benefit cap, under-occupancy charges, decreases in council tax benefit and an increase in the rates of non-dependent deductions. At the same time as these changes diminish purchasing power, the support mechanisms on which people rely are changing shape. For example, the Social Fund, which lent money to those on low incomes at no interest, has been devolved to local authorities and is no longer ring-fenced. These two changes together create a 'perfect storm' of increased price pressure on low-income households combined with reduced support, which makes understanding how and why the Poverty Premium affects low-income households even more crucial.

The project

This research seeks to explore how much of a Poverty Premium Tower Hamlets residents pay, how they pay it, and what impact this has on their lives.

Toynbee Hall is a community anchor organisation in the London borough of Tower Hamlets and, as such, it is natural that this area be the focus of our research. Furthermore, as Tower Hamlets has one of the highest rates of poverty in the country³, the highest level of benefit recipients of the London boroughs⁴ and the greatest inequality in income of any London borough⁵, conducting research into the Poverty Premium here is particularly relevant. It also provides the opportunity to explore whether having a large group of people in a similar situation affects the Poverty Premium; has the environment adjusted to better meet the needs of those on low incomes?

³ According to the London Poverty profile, more than 50% of children live in households either receiving out-of-work benefits or tax credits insufficient to lift them out of poverty, London Poverty Profile

⁴ London Poverty Profile

⁵ London Poverty Profile

Additionally, this research explores the interaction between paying a Poverty Premium and levels of financial capability. Toynbee Hall's conceptual framework for financial health is based on a model with the following two key components. First, the way in which policy makers and service providers of all types (national and local government, financial services providers, utilities, housing, education, health and others) transact with individuals for goods and services and thus shape the financial health environment. Secondly, the ability of individuals to navigate the transactional environment (in other words, their 'financial capability'). This report considers the extent to which the Poverty Premium is about an individual's ability to navigate the financial environment in which they live and to what extent it is due to market failure within the financial health environment. The way in which service providers reward or penalise different payment methods clearly contributes to the Poverty Premium. This research explores when and how an individual might mitigate the impact of the Poverty Premium through exercising greater financial capability; and instances when very high levels of financial capability are still unable to reduce the impact.

Research methods

In-depth interviews were conducted with 28 Tower Hamlets residents who received at least one means tested benefit and were at least partly responsible for paying household expenses. This ensured that everyone we spoke to was 'eligible' to pay a Poverty Premium, but allowed us to speak to a range of residents who paid this premium to a greater or lesser extent.

Questionnaires were conducted with 197 Tower Hamlets residents aged 16+ from across the income spectrum, of which 118 were classified as living in poverty. This questionnaire was developed by Toynbee Hall researchers and was cognitively tested before being used in the research. The questionnaire asked individuals how much and how they paid for particular goods and services. The resulting data enabled us to determine both how Tower Hamlets residents are likely to pay a Poverty Premium and the level of that premium.

In order to understand better the environment in which Tower Hamlets residents live, we also surveyed the borough on a ward by ward basis, looking at facilities which would encourage people to pay a Poverty Premium (i.e. fee-charging cash machines) and those which would support them to avoid paying a Poverty Premium (i.e. fee-free cash machines).

We applied methodology similar to that used by Save the Children to quantify the Poverty Premium, using knowledge we gathered from interviews and questionnaires. This enabled us to identify a local Poverty Premium which reflects the payment methods and products of choice of Tower Hamlets residents.

Table 2: Comparison of the potential Poverty Premium and the Poverty Premium in Tower Hamlets (£s)

	Typical Costs	Potential cost to low income family	Cost to low income family in Tower Hamlets	Potential Poverty Premium	Poverty Premium in Tower Hamlets
Basic household item: cooker	239	669	419	430	180
Loan for £500	500	750*	684.16	250*	184.16
Cash 3 x £200 cheques	0	36*	27.90-67.50	36*	27.90-67.50
Annual gas and electricity bill	1,644.94	1,753.55	1,753.55	108.61	108.61
Home contents insurance	75.23	80.29	72.50	5.06	0
Car insurance	728.38	1,178.83	1,222.35	450.45	493.97
Total				£1,280	£1,014

*Prices are from Save the Children (2011)

As can be seen from the table above, there is some difference between the potential Poverty Premium and the localised Poverty Premium paid in Tower Hamlets. This difference in part reflects the ways that people pay for products in Tower Hamlets. For example, whereas Save the Children's household item cost was based on hire-purchase, data from questionnaires told us that Tower Hamlets residents are more likely to pay by catalogue. This is a cheaper form of credit than hire-purchase and so results in a lower localised Poverty Premium. Conversely, our ward mapping identified more expensive charges for cashing cheques than was reported by Save the Children.

25% of interviewees buy goods using catalogue credit.

2.1 Hire purchase & Catalogues: Poverty Premium = £180

Those living on a low income are often unable to pay for large items up front and so rely on credit. There are, generally, two options for this; take a loan, or buy your item through hire purchase which allows you to pay weekly with added interest over a prolonged period of time. This second form of credit is much more expensive – Save the Children estimates that it can carry a typical Poverty Premium of £430 based on a high street store such as BrightHouse.

Data from our questionnaires showed that few people (0.8%) used high street hire-purchase stores to buy items and we found few stores on the wards we mapped. There was one exception, Bow East, which had eight of these stores.

Instead Tower Hamlets residents were more likely to use catalogue credit, with 8.5% of those we surveyed and almost 25% of interviewees buying goods this way. Their choice was driven by the same reasons that people use hire-purchase stores - to buy items which would otherwise be out of reach: "I couldn't afford to go to the store and give them cash and buy the things, so that's why I choose catalogues. Because I know I can pay them slowly." (Ruma)

Catalogues were used to purchase a variety of items, from children's clothes (Trishana) to furnishing a new home (Veda) and buying children's beds (Nell). Most of those we interviewed were aware that they paid a premium for buying goods through a catalogue and the choice was borne of a lack of alternative options: "Catalogue things are more expensive than shop price but still I have to buy from catalogues... there is no other way." This perceived lack of alternatives was true also for those who knew of credit products designed for those on lower incomes, as evidenced by Maryann, who was denied lower cost credit: "A few years ago when my washing machine broke down I did apply for a Community Care Grant. They said it wasn't a necessity... so I ordered one from the catalogue." This shows that even when people are financially capable enough to seek out and apply for more appropriate financial products, these are either not available or do not always come with terms that meet people's needs - and can again leave little option other than high-cost credit.



Those who went without to avoid paying interest could see the attraction of hire purchase. Ruth only used Credit Union and Social Fund loans, but said of hire purchase: "I'd probably think if it's what I want, I'm paying well over the odds for it but I'm having what I want. So I would probably be OK about doing it."

Just one person, Nell, used the catalogue in a savvy way, looking for sales and interest-free deals. This had allowed her to buy large items of furniture, such as beds for her children. Nell was very aware that catalogues could be more expensive and did not use them when doing so would cost her more. This demonstrates how financial capability can help individuals avoid paying a Poverty Premium. That we only encountered one person using catalogues in this way is interesting. It suggests that, although there are beneficial ways of using non-mainstream products associated with a Poverty Premium, this requires a know-how that many don't have. Increasing the visibility of deals like this would mean that people wouldn't need to have expert knowledge to access the goods they need without financial detriment.

2.2 Borrowing: Poverty Premium = £184.16

Many people we spoke to used credit, although most were wary of credit and how things could go wrong: "If you take an unplanned loan and your income is just the same that is the way of putting yourself down the drain... because as the pressure starts accumulating, the loan man is getting bigger." (Saryu)

People borrowed for different reasons, as illustrated in the table below:

Table 3: Why did you borrow money?

18.6%	To cover existing payments of bills
8.5%	To buy household furniture
6.8%	To cover day to day expenses
6.8%	To pay for a holiday
5.1%	To buy a large electrical item i.e. fridge
1.7%	To buy a small electrical item i.e. microwave

Almost a fifth of those surveyed used loans to cover existing payments or bills.

It is concerning that almost a fifth of those surveyed used loans to cover existing payments or bills. This indicates that some are borrowing money to plug gaps in their finances. Further borrowing inevitably makes these gaps larger, as each loan carries with it interest to repay on top of the figure borrowed. This was well explained by Manit: "I think the biggest problem is when a lot of people, and I've found myself doing it, are paying one credit card off... paying one loan off with another one... constantly getting into that circle... if you're not borrowing off the bank to pay a credit card or a loan, you borrow off your friends or family to do that... and it sorts of becomes a vicious circle."

Residents spoke of using a variety of types of credit. 5% of residents surveyed had used doorstep loans, as had two of those we interviewed. One interviewee, Manit, told us of his father-in-law's experience of doorstep lending. He had borrowed £300-£400 and now owed the lender £1,000. Another interviewee, a young woman with two small children, had also borrowed from a doorstep lender. Struggling to pay it back, she had moved several times to hide from her creditor. This experience had made her very wary of using credit: "I'm never getting a loan again. I think that's what done it, the Provident loan. Yeah, yeah, not good."

“

When I was working, yes I could have a fairly reasonable APR rate, but on short term loans, pay day loans I think they're called, no way. We're talking about 500% over like a month or something silly like that." (Keith)

A recently divorced mother of two was left with multiple debts and a poor credit score by her ex-husband who had gambled much of their money and savings. She was working hard to increase her credit score, including taking out a credit card to help improve her credit rating and having a subscription to a credit ratings agency so that she could track her progress. She was currently relying on expensive forms of credit (credit cards and catalogues) but had her eye on the future, rebuilding a credit score that would open opportunities for her and her family. (Trishana)

Credit cards were the most widely used form of credit among both residents we surveyed and those we interviewed. In almost all cases credit cards were used as a means of smoothing cash flow, or for when things were needed immediately: "If I have to use the credit card it would be for anything that the kids need straightaway that I haven't already saved up for, or anything that couldn't wait." (Nell)

Credit cards are not specifically an indication of paying a Poverty Premium, since this is a mainstream form of credit. However, the types of credit card available to those on lower incomes tend to have higher APRs, and those on low incomes are more likely to make minimum payments rather than clear the balance at end of each month and thus incur interest. This can be extremely expensive: "This is frustrating... I just pay the £5, £10, you know the minimum payment." (Kishor) "I don't feel that good because there is high interest, and missed payment charges." (Ruma)

A similar experience was shared by those using an overdraft (three interviewees and 14.4% of residents surveyed). "I did get in too much overdraft, I was just robbing Peter to pay Paul... It's like a vicious circle." (Corinne) Another had seen interest charges increase by 75% due to a combination of higher charges and greater use: "From that time my interest [is] just £5. Now I'm on benefits they're charging me £20 a month." (Veda)

A number of interviewees knew the loans they were borrowing were at a high interest rate, but had no other choice: "They give you such a high interest rate... because I was on low income. I couldn't get no other financial help from the Government... that was my only way... and at that time I couldn't borrow from friends or anything like that, so that's why I decided to go to the loan people that charge extortionate rates." In time paying back this money became too much of a strain on Corinne's already tight budget and debt collectors were chasing her: "I can't pay the agreement, because at the moment my priority is feeding myself on a daily basis, and having somewhere to put my head... they're kind of down the line, Provident... paying their loan, they'll come later."

Residents were faced with the option of taking high-cost credit, or going without. The case studies below illustrate this:

Interviewees knew the loans they were borrowing were at a high interest rate, but had no other choice.

Case Study 1

Keith, an unemployed man in his 30s, couldn't find a bank willing to give him a credit card. He refused to pay the extra cost of the credit he could access. Steering clear of this meant that he avoided paying an obvious Poverty Premium, but the implication of this was that he had to turn down job interviews because he could not access the money for transport and appropriate clothing.

Case Study 2

Another interviewee used payday loans for additional cash-flow to allow him to pay bills and fines. This individual knew the loans were expensive, but was happy to pay a premium to avoid other consequences: "If you don't pay them in a certain period they double up and all that stuff... and if it goes to bailiffs they come to your house and take like five times the original price." (Manit)

The difference between these two individuals' choices goes some way to illustrate the personal nature of paying a Poverty Premium, as well as the fact that not paying a Poverty Premium doesn't necessarily mean that an individual is doing well – it may be that by choosing to avoid this they are experiencing negative consequences in other areas of their life. So the lack of appropriate products in the market can have a negative impact on those who avoid paying a Poverty Premium, as well as those who do pay.

Avoiding a Poverty Premium/Speciality credit

As well as the individual cases we have seen of people avoiding paying a Poverty Premium when using products usually associated with this premium, some also avoided paying a Poverty Premium by making use of products and services especially designed for people on low incomes.



In the middle of winter I had to choose between the hospital appointment or having heating, so I said never mind heating, I've got to go to the hospital." (Keith)

Five interviewees had accessed Crisis or Social Fund loans, for different reasons and with mixed experiences. Keith, who was wary of payday loans, had taken multiple loans within a short period when he first became unemployed. Ruth had taken multiple loans over a number of years to allow her to make home improvements and afford large household items that she would not otherwise have been able to purchase. Social Fund loans were the only way in which Ruth could envisage making key improvements to her home i.e. putting up curtains, or repairing shelves. Both of these interviewees had encountered positive experiences with the Social Fund, but Keith had been denied a fourth loan and was surprised to hear he would not be allowed to take another loan: "I'm sorry, that's it forever for you."

After this Keith found that the only financial institutions he could borrow money from would charge high interest rates and at this point he turned down job interviews (because of travel costs) and made difficult decisions about expenditure: "In the middle of winter I had to choose between the hospital appointment or having heating, so I said never mind heating, I've got to go to the hospital... It was hard to have a whole day without heating or hot water, but it's an easy choice after you know what's important."

The terms of the Social Fund loans did not work for everyone. Ruma criticised the terms of the loan: "I had to pay it back in six weeks but how is that possible?" Others had been denied Social Fund loans. Corinne had applied for "all of the social grants you can get" and been refused all of them and Maryann had bought a washing machine using a catalogue after being denied a social loan.



2.5% of those surveyed and one interviewee had a loan from the Credit Union. Paul used the loans in a similar way to the way Ruth used the Social Fund, taking out two loans a year "just to buy things, just for me" and paying back £50 each month. His experience of the Credit Union had been good, but many of those we spoke to had negative impressions of the Credit Union. They saw it as a "poor man's bank" (Paul) only to be considered "if I were ever to hit rock bottom." (Trishana) Others were put off by the requirement to save before applying for a loan, seeing this as a fee rather than a savings account, and were wary of saving without the guarantee of a loan: "I'm fairly reticent to sort of hand over a fee for the opportunity to borrow money, or ask for money, 'cause I don't even know if after paying the fee I'd end up being issued a loan." (Keith) Ruth had saved in a Credit Union account for three months, but had been refused a loan at this point and found this frustrating: "I don't see much good, you know, the whole idea of my joining this thing was to get a loan." The Credit Union can meet some of the credit needs of those on low incomes, but experience and perception of the Credit Union indicates a need for better communication about what it can offer.

These cheaper forms of credit are held in high regard and provide a valuable and valued alternative: "I think it's safer to get a loan from the Job Centre than it would be from the others, because they don't take interest on it." (Clare) However, as we have seen these loans can have disadvantages, and people who access these products are not immune to the Poverty Premium. For example, Ruma used knowledge and skills to find a Crisis Loan through the direct.gov website, but paid a Poverty Premium in other areas, including accessing other highcost credit.

2.3 Access to cash: Poverty Premium = £27.90-£67.50⁶

There are numerous ways in which people can pay extra to access cash. One of these is cashing cheques. Most people's cheques are cashed for free by their account provider, but those without bank accounts pay for this service through money shops, pawnbrokers and other high street stores. When we surveyed the borough, we found the costs to cash a cheque ranged from £9.50 to £22.50.

Cashing a cheque can also provide instant access to cash, important in an environment in which immediate access to cash can be difficult to find. So the cost to cash a cheque can also be a penalty for those who are unable to wait the 3-5 working days it typically takes a bank to cash a cheque.

The need to access cash quickly also led people to sell items to raise funds. A small number of people had used pawnbrokers for this purpose. Maryann, Samuel and Ruma had all sold items in order to be able to pay for unexpected outgoings, such as large bills or parking tickets.

A final way that people can pay a Poverty Premium in accessing cash is through lack of fee-free cash machines. It is well evidenced that there are fewer fee-free cash machines in areas of high poverty⁷, and indeed this is what we found when we surveyed the borough. In the ward of Spitalfields and Banglatown, which contains the more affluent and commercial areas of Spitalfields and Brick Lane, there were 17 fee-free cash machines, whereas in East India and Lansbury, another ward with a large market square, there were just three fee-free cash machines, all centred around the square. This goes some way to illustrating the very local nature of paying a Poverty Premium. Paying to withdraw their money frustrated residents - "Why should I pay them one pound extra?" (Allycia) - and put an additional strain on tight budgets.

When we surveyed the borough, we found the costs to cash a cheque ranged from £9.50 to £22.50.

Almost all of the ways in which people pay a Poverty Premium when accessing cash are difficult to avoid by an increase in financial capability alone. Moving people into banking requires ensuring banking products meet their needs; a lack of fee-free cash machines leaves an individual with only the option of travelling to a fee-free machine, which in turn can cost travel fares and time; and the lack of access to cheap immediate credit drives the demand for higher cost credit. This is an aspect of the Poverty Premium which could be resolved by ensuring those on lower incomes have access to appropriate products and services; both in terms of the development of appropriate products and services, and ease of access to those services.

In the ward of Spitalfields and Banglatown, which contains the more affluent and commercial areas of Spitalfields and Brick Lane, there were 17 fee-free cash machines, whereas in East India and Lansbury, another ward with a large market square, there were just three fee-free cash machines.

⁶ The combined figures of the cost of cashing a cheque and using fee paying cash machines.
⁷ http://www.citizensadvice.org.uk/index/policy/policy_publications/out_of_pocket.htm shows that "in some areas people have no choice but to use a fee-charging cash machine, particularly in rural or urban deprived areas".

2.4 Fuel: Poverty Premium = £108.61

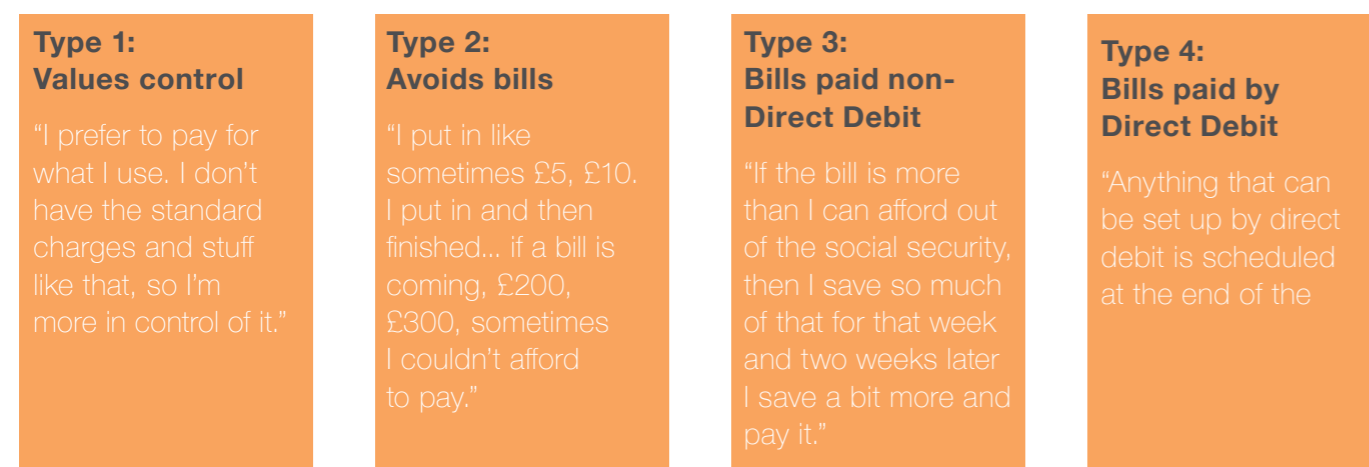
Most people considered paying for fuel to be their biggest expense. Although energy providers are no longer allowed to charge those who pre-pay for fuel more per unit of energy, using a payment method other than Direct Debit carries extra costs, since most providers offer a discount to Direct Debit customers. Additionally, gas and electricity meters have an emergency credit facility that can lead to charges as it is necessary to repay any credit before money is credited to a meter. As can be seen from the table below, prepaying for fuel was the most popular method of payment for those we surveyed.

Table 4: How do you pay for your gas and electricity?

Payment method	% who pay for gas this way	% who pay for electricity this way
Prepayment meter	33	39.4
Cash	28.2	26
Direct Debit	18.4	22.1
Bank transfer	3.9	3.8
Other	3.9	2.9
Cheque	2.9	2.9
I don't pay this	9.7	2.9

In-depth interviews allowed us to explore the reasons people paid for fuel the way they did and from this four groups of fuel payers emerged. The first group valued the control over their spending that prepaying for fuel provided. The second were daunted by the thought of bills that they wouldn't be able to pay. The third received bills they may not be able to pay at once; and the fourth paid by Direct Debit. In illuminating what drives people to pay a certain way, we can see what it is that excludes those on low incomes from accessing the best price options for their fuel.

Figure 1: How people pay for their utilities



Because you're not working, you don't know when the rent will start. With Direct Debits it usually takes the banks a few weeks to sort it out, so you get charges on your account, so when you do start work you're in debt straight away. So I prefer to pay cash." (Samuel)

Prepays for fuel: Values control

For this group, control over exactly how much money was spent on fuel was important: "I prefer the meter because then I can control how much I put in it." (Ava). As was control over how payments are paid: "A lot of those people [the 60-70 households in their father-in-law's estate] shy away from Direct Debits... they'd rather pay someone in cash... rather than a company taking money from your account, not being able to pay and then being charged for it... and all that stuff... so at least it's a straight-up cash transaction." (Manit)

The income of those on benefits and variable incomes changed each week or month and many people felt their situation was simply not stable enough to pay by Direct Debit.

Prepays for fuel: Avoids bills

The second group was driven by avoiding bills for large sums of money, which they would either need to plan ahead to afford, or would be unable to pay: "You know like winter, three months means you going to get like £210, or £230, or £190, and I used to find it hard." (Allycia)

"My daughter made me laugh the other day, because she got an electricity bill for £166. That's quarterly and I'm like, shhh, there's no way I could afford to pay that, so I think it's best I stick to what I can afford. I can control. The only thing I can control is the electric at home."

"I'd rather pay extra to get it out of the way on a weekly basis rather than getting the £200 bill and thinking, oh my god, what am I going to do? That feeling you get in your heart. That's why I pay on my key meter for the last three weeks." (Allycia)

Prepaying offered this group comfort that they could afford the fuel they were using and were keeping up with the costs. Many were aware that it cost more to prepay for fuel but weren't prepared to give up these benefits: "You don't want it another way, you just want the tariff to go down." (Paul)

In addition to the extra costs there were practical difficulties, such as running out of credit late at night when shops are shut, or when machines were broken. More than one interviewee described this situation: "It's so much stress you know, 10 o'clock no electricity and you run to the shop. The other day, oh my god! I had to go to six or seven places because the local one was out of order, then we went to another place it was closed, then we went to another place it was out of order. You know it was one o'clock, I was running around to charge my key!" (Allycia)

Bills paid non-Direct Debit

"Some of my friends had some surprises with the Direct Debit, so I stick, you know, when I receive the bill, I pay."

The third group received monthly or quarterly bills. Among this group it was common not to be able to pay a bill in full. People often had to choose which bills to pay and try to ensure that each bill was paid off before the next came in. For example, if a gas bill arrived on the 4th and electricity on the 14th, the electricity payment would wait so that the gas bill was paid before the next bill was due.

For some this was a considerable source of worry: "It's not good. All the time I am under pressure and I have to give a little bit. I cannot pay them fully at the time." (Suman) Whereas others were happy with this arrangement and felt that their providers were also content: "I don't think they [fuel companies] like the idea of having one bill contributing towards the next bill. So they prefer you to clear one, you know, before the other arrives. And I've noticed that as long as you make sure you can actually do one before the next one comes in, they tend to just sort of allow you a bit of leeway." (Ruth)

There were practical difficulties, such as running out of credit late at night when shops are shut, or when machines were broken.



Pays by Direct Debit

Trishana and Mani planned their Direct Debits around their income cycle, which helped them to manage payments. It was common among those we spoke to not to pay all bills by Direct Debit. “I didn’t choose all of them by Direct Debit because I know there’s no money in my account.” (Ruma)

“I pay half of them Direct Debit because I can manage at least some of them by Direct Debit. My account sometimes is empty, but I didn’t choose all of them by Direct Debit because I know there’s no money in my account. That’s why half of them I try to pay by cash.”

“Anything that can be set up by Direct Debit is scheduled at the end of the month. Gets salary on the 25th - so make sure everything goes out 26th, 27th, 28th.” This resident keeps a spreadsheet or diary for things coming out that week - such as school trips, school dinners, birthday parties, weddings – thus making good use of Direct Debits and other tools for constant reminders that she needs to pay for upcoming things.

Around 20% of survey respondents and six interviewees paid by Direct Debit. They did so cautiously and managed by careful planning.

However, despite careful planning, around half of our Direct Debit users struggled: “At the moment I’m thinking to close... I need to make sure I’ve got money. £20 is not a little amount for me.” (Ankur) “It’s getting me in trouble and I end up in here [Toynbee Hall] talking to a debt advice person.” Or they had struggled with Direct Debits in the past: “The Direct Debits were still going out of the community credit union, but there was no money there to be taken, so I’m in debt with them now.” (Corinne)

Again in this area there was one example of someone’s financial capability enabling them to avoid paying a Poverty Premium. This was the case of Trishana, who was trying hard to increase her credit score using an account with Experian. This single mother of two was on the British Gas Essential Tariff, introduced in 2010 for low-income earners. There were a limited number of places on this tariff and by checking direct.gov regularly she was able to get herself and her parents on to it before places filled up. This meant that Trishana avoided paying a Poverty Premium on gas and electricity. However, she still used catalogues to buy clothing for her and her children, illustrating that capability may help in some cases but not others. In particular if there is a need for which appropriate low-cost products do not exist, individuals may find it difficult to avoid paying a Poverty Premium. This highlights the essential role of an adequate supply of alternatives in reducing the Poverty Premium.

“

If you’re getting a certain amount a year then you can budget yourself to have a Direct Debit, but if you don’t then it’s just a waste of time because the banks are so quick to charge you. If it’s one day or one hour late, it’s not worth it because if you haven’t got much money the bank just takes it off of you, it just doesn’t make sense. Sometimes the bank charges you more than you’d have to pay in the first place.” (Samuel)

2.5 Insurance: Poverty Premium = £493.97

Most people (69.7%) we spoke to had no insurance. The kinds of insurance those we surveyed had can be seen in the table below:

Table 5: What type of insurance do you have?

% of respondents with this type of insurance	Type of insurance
30.1	Motor insurance
5.8	Home contents insurance
3	Life insurance that pays out on death
1.5	Buildings insurance
0	Critical illness insurance
0	Payment protection insurance
0	Income protection insurance
69.7	No insurance

Paying for insurance is often not a priority for those who are struggling to afford necessities such as food and fuel. However, without insurance if expensive items break or are stolen the impact is greater since individuals will need to replace each individual item. A lack of insurance forms part of the Poverty Premium because those who don't buy insurance are subsequently in a worse position when items need to be repaired or replaced. Furthermore, insurance premiums can be higher in areas of higher crime and lower income.

Just three of those we interviewed had insurance other than car insurance and in two of the three cases this was in response to having faced difficulty in not being insured previously. Ava had taken out life insurance after struggling to pay the cost of her mother's funeral; and Ankur had taken out insurance on two large items - a cooker and freezer - after his freezer had broken in the past. When Ankur's freezer broke the man who had fixed it had waived the charge. He was very grateful for this but knowing what he would need to pay if this happened again has led him to take out insurance on larger items.

Just one person, Saryu, had taken out insurance without first experiencing something going wrong. She had found a £12 a month current account which included insurance for five household items and was very pleased with the deal.

It was striking that among those we spoke to many were social housing tenants without basic contents insurance. Many social housing providers in Tower Hamlets have partnerships with insurance companies that allow them to offer home contents insurance for just a few pounds per week. There seemed to be little awareness of this among those we spoke to.

69.7% of those we spoke to had no insurance of any kind.

2.6 Food

This report has not estimated a Poverty Premium for food because this would necessitate defining a basic shopping basket, and in a diverse borough it is difficult to determine what this basket should include. Instead we used the results of interviews to explore whether and how people paid a Poverty Premium in this area.

There are two distinct ways that people can pay a Poverty Premium on food items. The first is by lack of access to cheaper shops due to the prevalence of 'local' supermarket branches and corner shops, as opposed to larger, cheaper shops which are often further away and cost people to travel to. The second is by being unable to take advantage of multi-buy deals which offer items cheaper per unit to those who buy in bulk. Many people had developed workarounds to avoid the first kind of premium, but most were unable to avoid the second.

Those who avoided paying a premium at 'local' shops did so by shopping around, noting the price of items in different stores: "If it means walking to Tesco or Asda, wherever, I'll do it. I have to because, you know, it's getting to the point where you buy six things, seven, and it's £30 and you've got one shopping bag - what's in it for £30?"

"You can go to the big supermarket, it's cheaper than the small one. And Tesco Extra... they charge extra, so it's better to go to the big one."

Reducing the cost of shopping sometimes meant people noted where specific items were more expensive at a large supermarket and shopped around even when they could visit larger stores: "I don't buy onions from the supermarket... for a pound you can buy a big bag of onions from the local shop. And a big bag of potatoes as well, so that tends to last better than going to Asda, where it's three onions for a pound." (Clare)

Some also managed the cost of food by shopping at times when items were reduced: "I know roughly the times they do the reductions and I go and buy reduced food... that would probably save me half my food costs and the rest would be on things like tea, coffee, milk, cereal. I do look and if they have offers I do sort of try to do the buy one get one frees." (Ruth)

"Well I mostly buy my vegetables and fruit from the market because I find it cheaper and you get better deal." (Allycia)

This shopping around was tiring: "I would love to buy it altogether, because going to different places is time-consuming, tiring and everything. But again, right, I have to be careful with the budget."

A few of those we spoke to were able to buy larger packets, which are cheaper per unit: "If I buy tea bags a big bag finishes in one year, nine months, something like that... For us that's a lot of money, but if you look it lasts a whole year that's a lot less expensive for us."

However, others like Ruth were unable to take advantage of these deals, despite using strategies to cut the cost of food shopping in other areas: "What you call a high thing, like say coffee. It might say £4 a jar and you might be able to get two jars for £7. That's quite an expensive thing for me, so there are some things that you can't take advantage of. The better deal for me is if they reduced the coffee to a third, half price or something."

Cooking was a cost-cutting strategy used by two interviewees we spoke to: "Food is easy enough to, eh, have a healthy, fairly enjoyable diet. I would say if you are aware of your options and where to shop, how to prepare things at home, it's easy enough really." (Keith)

Some found the oven too expensive to run and relied on the hob only.

There were difficulties providing a balanced diet, with some feeling unable to give their children the diet they wanted to.

"When I had my first child it was a lot harder because when he started eating, I was like, oh yeah I'll just feed him on jars of food, just go and buy more jars of food and it comes to like £70 or something... I didn't realise I can make sweet potato myself. So I've done that after buying £70 worth of jars! Which is stupid! And it's like now I already knew that, so I done it with my next one. Like I done it cheaper." (Clare)

But the cost of cooking was prohibitive for some. For example, Allycia found the oven too expensive to run and relied on the hob only. Paul managed his food budget by buying frozen meals at 70p each, which need to go in the oven. This enabled him to buy enough food, but his oven was broken and he couldn't afford to fix it, which led to him being worried about preparing his food: "I can't use the grill because it's in the oven. So the oven, it's got that side working, that side on the bottom working, but the top grill's dropping."

Changing circumstances meant that money-saving strategies that had been used to good effect before were now out of reach, with remaining options carrying a higher cost: "It gets to the point where shopping is a daily thing. It's expensive if you do it daily but you can't do it like a monthly thing. When I was working and before all the changes [to working tax credit] I was doing a monthly shop. It lasted us the month and you would put a little bit here for anything, but now... nothing." (Ava)



And despite using a combination of strategies to reduce food costs, interviewees often still struggled: "There's times when you're like, 'I think you've had enough', and I'm monitoring the food. I'm always saying, 'You've got to remember there's another day because I haven't got the money.'"

There were also difficulties providing a balanced diet, with some feeling unable to give their children the diet they wanted to: "Good food costs more than say bad food, so you buy the things you can afford... You haven't really got choices. You should do, but you've got to sacrifice something else, you know, just to pay that extra fiver or tenner on the shop. So it's just not worth it, no way."

Providers in this area could better support those liable to a Poverty Premium. Multi-buy offers could be restructured to offer the same discount per unit without the need to buy in bulk. A greater variety in local shops and supermarkets would help too. There are also examples of other organisations in the wider community supporting the availability of lower-cost produce. For example, a local housing provider set up a market in an estate square to provide access to cheap fruit and vegetables. There is also scope here for residents to take action themselves, grouping together to take advantage of multi-buy offers through sharing the cost. However, this requires effort, time and trusting relationships across households with similar needs and tastes.

A local housing provider set up a market in an estate square to provide access to cheap fruit and vegetables.



If you take a one-day bus pass it's £5... that £5 could buy bread, eggs and milk for kids for three days' breakfast." (Gandhali)

The impact of this premium is to further stretch already low incomes, taking away extra pounds that might have been used for additional purchases or savings. We have covered in each section here the impact on people paying particular components of the Poverty Premium. However, there are other more far reaching consequences of paying a Poverty Premium and it is important to discuss these to really understand the impact of this premium.

Transport was a difficult expense for many, with various methods of transport prohibitively expensive. Gandhali walked long distances instead of using her car and Saryu found public transport to be very difficult: "Transport makes people be in prison in their own places... because they cannot go out with their kids because transport is getting too high. If you take a one-day bus pass it's £5... that £5 could buy bread, eggs and milk for kids for three days' breakfast."

The need to prioritise spending on necessities was a challenge encountered by a number of those we spoke to: "The middle of winter and I had to choose between the hospital appointment or having heating." (Keith)

A common concern was parents worrying that they weren't able to afford various things for their children. Children didn't have appropriate bedroom furniture, missed school trips (Allycia), and parents worried about being able to give them a varied and healthy diet, sending them to college, and taking them on holiday (Clare). In the end parents made sacrifices: "My own needs come later... I have to see that they are clothed properly; they've got shoes, they've got warm clothing." One mother went without meals so that she could give her child three meals a day (Ava, single mother of one dependent child).

In addition to this, many of those we interviewed found a satisfactory social life hard to maintain. It was too much of a stretch to go out with friends or family, difficult to attend events where there was an expectation to look nice and bring gifts, and sometimes too much to travel to a friend's house or to feed friends or family at home. Many made up excuses for not attending social events: "You're invited but you can't afford it, so you have to make excuses like you've got an appointment or something like that. Just to save face really." (Samuel)

One single mother with a dependent child, went without meals so that she could give her child three meals a day. (Ava)



Everything you do has to be budgeted carefully. I can't go out recklessly because if I do I have to suffer the consequences". (Ava)

The need to stay in to save money led to the perception of "having a boring life" (Ava), which put further pressure on social interactions. Ava told us: "I get to the point where conversation is not great because you're indoors all the time. Everything you do has to be budgeted carefully. I can't go out recklessly because if I do I have to suffer the consequences. Reminders are coming in, the phone's going, you know." Others avoided socialising because "I feel like I'm only dragging them down, involving them in this." (Keith). Or they avoided socialising at home because they were embarrassed that their home was overcrowded, or in a bad state of repair: "When you said, do people come to my house? No, because I feel it's not comfortable, it's not nice." (Ruth)

Some with close-knit communities and nearby families were able to socialise for free by sitting at a friend's house or attending local groups, but the majority of people we spoke to did not mention this. Indeed, Although some interviewees were "passing through" a difficult time, others struggled to imagine things improving - two interviewees even talked about suicide as the only route out of their situation. Although they were very financially capable individuals, who spent a lot of time ensuring they could make ends meet, they couldn't imagine their situation changing and felt "stuck":

"It's sort of like in the middle. I'm not so worse off that I qualify for every single benefit, but at the same time I'm not that much better off that I can actually move up. I seem to be at a place all my life. I've just been held at that level and I've never been able to move out of that level, as much as I've tried... And obviously you don't want to move down. You just stay, you just think to yourself: well I've got to a point and there doesn't seem to be any hope of anything better coming." (Ruth)

One lady spoke about how having other family members drop by her house was a strain on her finances because she was expected to provide food and drink.

Chapter 4: Avoiding a Poverty Premium: What makes it easier?

This section explores the ways in which people avoided paying a Poverty Premium, as well as the ways in which they coped with the diminished spending power they had as a result of paying this premium.

1. Financial capability

Having higher levels of financial capability both decreased the risk of paying a Poverty Premium and acted as a cushion against its effects. We saw many cases of people cutting their costs and avoiding the Poverty Premium by accessing information, or employing knowledge; using interest-free catalogue deals and shopping around for cheaper food products are both examples of this. Each time an individual avoids some aspect of the Poverty Premium it gives that person a little more money in their pocket.

One common strategy people used was to budget. This allowed people to make their money go as far as possible, as well as allowing them to make certain payments by Direct Debit, which provides a saving. There were many strategies for budgeting, ranging from detailed monthly expenditure charts to tracking transactions on paper and reviewing them on a weekly basis (Nell), to planning expenditure day to day and not taking out more money than needed: "If I walk around with extra money sometimes I'm wasting a little bit of it, on purchasing non-essentials or something." (Keith) Strategies helped people avoid wasting money and to make sure that enough money was put away for necessary expenditure: "We always think that at the end of the quarter we need to have at least like £500-£600 in the bank for all of the bills." (Nell) Some budgets were collaborative, others were the responsibility of one person in the household, often the woman: "I'm the one more in control of the money. He makes money, and from that I can see whatever we can do." (Helena) "My wife sort of manages it... I tend to keep it more to the last day and wait till the extension to pay... er, so my wife's more on the ball." (Manit)

Another money-saving strategy was to shop around for items. People shopped around for clothes (Saryu), equipment for school (Nell), large household electrical goods (Ruth) and material to make bedding and headscarves (Allycia), or curtains (Clare). This sometimes required skill in planning and communication. For example, Ruth did research so that when applying for a Crisis Loan she could prove that buying a second-hand cooker would cost the same amount as a new cooker (when you take into account the costs of delivery and installation, which were covered in the cost of a new, but not an old cooker). As with food, shopping around was seen by many as a necessity: "I would love to buy it altogether. But I have to be careful with the budget" (Allycia)

Having higher levels of financial capability both decreased the risk of paying a Poverty Premium and acted as a cushion against its effects.

As well as allowing people to get more for their money, higher levels of financial capability also allowed people to tap into support. For example, more financially capable individuals found out about entitlements, such as discounted bus travel for those on JSA and hospital travel expenses; or the existence of crisis loans and the social fund. There was a feeling that these were "hidden" and took some skill to find: "I find no one actually volunteers the information to you. It's really keeping yourself aware of what's going on and just picking up information. I suppose they call it life skills or something." (Ruth) If this support was more visible many individuals could access products and services which would enable them to make their money go further. This would be a much simpler and more effective strategy than helping each individual discover what support they might be eligible for.

One interviewee had turned to entrepreneurship to ease the pressure on her budget: "I've started buying and selling clothes online to make extra money, because my cooker broke and I couldn't get help from anywhere." (Clare) In this way this young mother of two could afford curtains for her home; particularly important since she was uncomfortable taking her headscarf off in the home without them. She was planning other home improvements that would make life better for her and her two children.

For Clare - who was paying back debt and trying to increase her credit rating - financial capability appeared to be lifting her out of the situation she was in. However, for most people these strategies only eased the pressure on budgets that remained insufficient. For these interviewees, budgeting and careful planning didn't alleviate the need for mothers to go without food so that their children could eat; to sit at home in the dark without radio or TV to save money; or to sit in bed under blankets to avoid putting the heating on.

There was a feeling that entitlements, such as discounted bus travel for those on JSA or the existence of crisis loans, were "hidden" and took some skill to find and apply for.



2.1 Borrowing from family and friends

Eight interviewees had borrowed money from friends or family, and 19% of those we surveyed owed money to friends or family. Borrowing ranged from hundreds of pounds to lending each other five pounds until benefits come in. Borrowing tended to fall into one of two categories: people borrowed because they needed a particular item or temporarily had especially high living costs; or people perpetually borrowed to plug a gap in their finances.

Some of those who borrowed because of temporary high expenditure were going through big life events, such as moving home or having a child. Others had unexpected expenses, such as picking up a car which had been impounded (Suman), or paying off debtors to avoid repayment plans (Nell). This assistance sometimes took the form of support in kind, as for Ava whose older daughter takes her younger daughter out on trips during the school holidays: "Because I couldn't afford it... I'm feeling like a bad mum at times because she wants something. I can't give it to her and my daughters will sort of step in and sort of say, we'll get her something, or they take her out and I'll stay indoors."

The experience of borrowing from friends and families was varied. People valued that money borrowed in this way was interest-free and could be paid back within a flexible time frame, but many were uncomfortable about asking: "You get to the point where you're fed up of asking, 'Can you lend me some money please?' It feels like I'm a beggar, forever begging for something." (Ava)

It was a last resort for Suman: "If overdraft finish, credit card no limit, then I go to my friend." And Ruma was careful not to overburden family members: "My in-laws, I don't ask them about financial-wise. Because they are already supporting me in another way, looking after my seven-year old son." She did ask other family members for money, but didn't like to do so regularly: "Last time I couldn't ask her because I felt so embarrassed, and I had to sell my gold."

“

You get to the point where you're fed up of asking, 'Can you lend me some money please?' It feels like I'm a beggar, forever begging for something." (Ava)

“

When me and my wife had our baby, all the time they support me... they give me their time, they give me a lot of money... Buy everything for my family, food, everything. Because I just lose my job at that time, all the time they support me." (Suman)

For two interviewees borrowing was part of a trade: "When I was working I would let my friends and family borrow from me, and now they know I'm not working, I borrow from them." (Ruma) "I go there [her sister's house] and sort out her benefits for her... and sometimes if I'm in a bit of a something, or I've had to pay out something extra for [her son] then I'll let her know. And she'll make sure it all adds up and I don't end up with a bank charge." (Maryann)

The second kind of borrowing was much more casual, with smaller amounts borrowed to help make ends meet: "Some of my friends, they know about me and they are very helpful... not every month one person. A different person and another month I give the first person a little bit." (Suman). "Sometimes I ask my friend when I'm shopping if I can have a bit of money." (Sini). "Basically I'm borrowing off him, he's borrowing off me... when I get my benefits I give him a fiver... whatever... he gets his benefits, same thing." (Corinne)

2.2 Non-financial support from family and friends

"I suppose you could say he knows the system, what he's entitled to, what I'm entitled to... I didn't know nothing." Corinne

As well as providing money, those with close friends and family could draw on support in kind to help them manage. Both Trishana and Ruma's family provided free childcare which allowed them to work: "In terms of childcare and when I need to work late, the support I get from family gives me flexibility." (Trishana)

Others had friends with strong financial skills and a good knowledge of financial products and services. Suman, Saryu and Ankur benefitted from friends with strong budgeting skills who taught them how to budget well and where to go for cheaper deals: "This one friend taught me a long time ago. She told me, 'Do you know what time I buy Christmas presents for next year? I buy in January.' I say why January? She says, 'In January sales! I buy it and keep it away.' I said that's clever." (Saryu). "I used to buy my trousers and shirt from Marks and Spencer, but they're so expensive. If I buy exactly the same thing in British Home Stores, it's £10 less... Two, three of my friends, they say buy from here. I can go there and it's very easy this amount of money." (Ankur).

These friends and family members were also a source of comfort: "It's always reassuring when someone else says to you, 'That's a really good deal', you know!" (Nell)

“

There was a few times I felt like doing something stupid but with people like that here to help you it's light at the end of the tunnel. It may not be the change you want now, but you know it's going through the process. So yeah, I'm happy to come here." (Ava)

3. Voluntary and community organisations

The final way this research identified people avoiding, or coping with, paying a Poverty Premium is by accessing voluntary and community organisations and the support they provide.

Five interviewees had received support with benefit entitlements and applications.

One had been given help to better understand letters received. Three had received support concerning arrears, with two being given grant money to pay off arrears, and grants for holidays and items for her children. This support had a big impact. Paul had been through several months of difficult interactions with his housing provider and was facing eviction before he went to the CAB: "And lastly it's ended because I got a letter made up from the Advice Bureau... I went there thinking I was going to lose my flat." Another had "£360 to help me with Thames Water".

Two interviewees accessed money management training projects. "I'm on the track how to manage money. The way I'm doing at the moment, I'm doing the right thing." Ankur had recently completed a course with his wife in Islington and spoke of the impact this course had already had on his money management. He had been particularly concerned that his children's education would be affected by their financial situation. When a school trip came up that was difficult for him to afford, he was able to identify an organisation which provided financial support for school trips. He successfully applied for and received grant funding to cover the total cost of the trip. Ankur paid a Poverty Premium in other areas, but what he learned through the course allowed him to make the money he had stretch further.



There's times when you just feel like giving the whole thing up, but if you get support, just seeing somebody here helps me. And because it's local as well and it's not costing me anything to get in." (Ava)

Maryann received support from the charity Family Fund towards the cost of a holiday for her child with ADHD. She was told about this grant by a support group she attended for parents of children with ADHD. She now volunteers at the group and enjoys telling others about the fund: "They're really delighted that you can ask for a computer and stuff that would help your child."

For others, voluntary and community organisations weren't places to learn to manage money or to access additional entitlement, but instead provided the opportunity to socialise for free. As we have already heard, the wider impact of paying a Poverty Premium can make it hard to afford to socialise, and so providing a free place to socialise meets an impact need. For example, Saryu attends a parents forum at Toynbee Hall "that keeps me going and I keep on getting in contact with the other parents." Ava volunteers at Bromley by Bow Centre: "There's times when you just feel like giving the whole thing up, but if you get support, just seeing somebody here helps me. And because it's local as well and it's not costing me anything to get in."

Ankur paid a Poverty Premium but learnt through a financial capability course to make his money stretch further.

1. Isolation

Many people were protected against paying a Poverty Premium by having people or voluntary and community organisations to rely on for support. Lacking this exacerbates the experience of paying a Poverty Premium. There is, of course, no guarantee that people's family and friends will have the relevant knowledge or skills, but in the case of those we interviewed here, being isolated certainly made gaining this knowledge more challenging.

Those who couldn't turn to family and friends to borrow money cheaply and flexibly - or to find out about additional entitlements, to borrow goods they need but cannot afford, or for advice on where to go to get the best deals on clothes, food and other items - were at a disadvantage. This more isolated group needed to either be savvy enough to find out all of this independently, or they operated without this knowledge and so were liable to pay a higher Poverty Premium.

2. Low capability

As has already been discussed, higher levels of financial capability made it possible for some people to avoid paying aspects of the Poverty Premium - and to avoid some of the impact of paying a Poverty Premium. The flipside of this is that those with lower levels of financial capability were less able to avoid this. This group were more likely to cut themselves off from low-cost credit; misunderstand how Credit Unions work; be less likely to plan ahead and pay at least some bills by Direct Debit; and be less likely to find low or no-interest deals on hire purchase items.

Knowing where to access support, another component of financial capability, also impacted on the experience of those paying a Poverty Premium. The community and voluntary sector have expertise and resources that are not always available from friends and family. Not knowing how to access these services renders people unable to receive support that may be helpful to them.

Lower levels of financial capability also made it more difficult for those who paid a Poverty Premium, since not having these skills meant their money didn't go as far: "Sometimes I spend a lot of money because of not planning." (Kishor)

Everyone who cannot afford to commit to a monthly Direct Debit pays more for their fuel; everyone who cannot afford to buy two jars of coffee at a lower unit cost pays more for their hot drinks.

Lower levels of financial capability also made it more difficult for those who paid a Poverty Premium, since not having these skills meant their money didn't go as far: "Sometimes I spend a lot of money because of not planning." (Kishor)

3. Lack of appropriate products and services

There are two issues concerning appropriate products and services. The first is that there is a lack of appropriate products and services for those on low incomes. The second is that there is often low visibility of the products and services that do exist to meet the needs of this group.

A lack of appropriate products and services means that everyone who cannot afford to commit to a monthly Direct Debit pays more for their fuel; everyone who cannot afford to buy two jars of coffee at a lower unit cost pays more for their hot drinks. Many of these pricing structures exist to reward those who make use of particular payment mechanisms and make spending decisions that benefit companies. However, in doing so they create a Poverty Premium by penalising the way people manage life on low incomes, often through necessity rather than choice. Working towards changing some of these payment structures would be the most effective way of reducing the Poverty Premium.

These payment structures don't apply to all products and services, and indeed many products and services have been created specifically to meet the needs of individuals on low incomes. However, as we have already discussed in this report, these often lack visibility. This means that in order to access a Social Fund grant, reductions on London Transport tickets or social tariffs for utilities, every individual needs to be an expert navigator of a complex environment. It is this that puts people with low financial capability, or who are isolated, in a worse position when trying to avoid and/or to manage a Poverty Premium. Increasing capacity and resources to navigate this environment would go some way to enabling people to access appropriate products and services. However, it would be much more effective to simplify this environment, bringing these specialist products and services more easily within the reach of those who need them.

In order to access a Social Fund grant, reductions on London Transport tickets or social tariffs for utilities, every individual needs to be an expert navigator of a complex environment.

We asked everyone we interviewed to tell us what they thought about the idea of paying a Poverty Premium. Many people found it difficult to relate to this concept, but among those who did was Keith, a former civil servant who had been earning an above average wage but since becoming unemployed had seen his financial options diminish: "I think it really is a tax on people who aren't earning a lot of money, or aren't ever able to elevate themselves above being on the meter... with pay as you go there is normally a high levy on it... with pay as you go phones as well, the actual unit costs are higher on them."

Ruth, a lady nearing pensionable age who had been unemployed for some time, also had this to say about it: "I personally feel it's very unfair because you're actually penalising the people who can least afford it. I mean because they can't afford to go out and buy the cooker in one fell swoop, you're penalising that person for having the privilege of paying it off. And I'm not saying there aren't people who are wealthy who are paying things off. But say they might have a credit card. When the bill for that credit card comes through, they pay it off in full and they don't incur any interest charges."

“

I personally feel it's very unfair because you're actually penalising the people who can least afford it. I mean because they can't afford to go out and buy the cooker in one fell swoop" (Ruth)

A few people that we interviewed commented on the experience of paying a Poverty Premium in Tower Hamlets specifically. These people all thought that being poor in Tower Hamlets as a location, and as a poorer London borough, was better than being poor elsewhere. For the most part people commented on the availability of free activities, including inexpensive school trips and activities for children. Ruth talked about the availability of free cultural activities: "Because I suppose you live in London as such... if you actually wanted to go to, I don't know, like an art gallery, you could find a free one to go to. In terms of things like that, you're sort of spoilt for choice."

One person, Gandhali, suggested that the experience of paying a Poverty Premium was not as harsh because many others in the community were in the same boat: "It's not that bad... if you was living outside, like in an expensive area like Central London, it would've been more impact right. Because more or less, in Tower Hamlets 80% of the population are on a low income, so it's not like affecting that much."

Discussion

This research calculates the localised potential Poverty Premium in Tower Hamlets to be £266 lower than the potential Poverty Premium in the country as a whole. The key contributors to the Poverty Premium are the same as those found by Save the Children - fuel, car insurance and loans.

The main reason for this difference in the Poverty Premium is the cost of loans, including both a household cooker and loan for £500. This difference reflects the credit choices of those we interviewed and surveyed as part of this research. Whereas the Save the Children calculation assumes that people buy household items using hire-purchase stores, we found that people were much more likely to use a catalogue to buy these items. This is a cheaper form of credit and is reflected in the smaller Poverty Premium for Tower Hamlets. It should be noted that residents of Tower Hamlets could choose to pay the £1,280 figure calculated by Save the Children, or more, but those we surveyed typically chose a cheaper form of credit. The actual figure will vary depending on the choices each individual makes. The figure here is simply intended to give an idea of what might be paid by a Tower Hamlets resident who incurs a Poverty Premium in all identified components; and makes choices that were common to those surveyed as part of this research.

Overall, it was possible to identify two main factors that contributed to the likelihood of any particular individual paying a Poverty Premium. These were the level of social support that an individual had, and their level of financial capability. Both of these factors affected the tools and abilities that an individual could draw on to navigate their financial environment, and avoid the processes and practices that rendered them liable to pay a Poverty Premium. Matrix 1 overleaf presents the interaction between these two factors.

It is important to note that even those with strong financial capability and a high level of social support were still unable to avoid paying a Poverty Premium if their income level was such that their best option was penalised by providers of products and services. For example, an individual on a low and variable income could identify that the best decision for them would be to pay their fuel bill by quarterly bill. Despite being the best option for the individual, this choice is penalised by fuel providers, who prefer their customers to pay by Direct Debit, and so the individual would still pay a Poverty Premium.

It was possible to identify two main factors that contributed to the likelihood of any particular individual paying a Poverty Premium. These were the level of social support that an individual had, and their level of financial capability.



This research clearly demonstrates that the impact of the Poverty Premium is both highly localised and individualised. Within the specific community of Tower Hamlets we witnessed individuals who used varying combinations of financial capability and social networks to manage on a low income and avoid paying certain elements of the Poverty Premium. However, even these skills could not protect residents from all aspects of the Poverty Premium. Where there were uncontrollable externalities, such as a mismatch between an individual's income stream (irregular, weekly, unreliable, inconsistent) and a payment mechanism attracting a discount (monthly Direct Debits for fixed sums), no amount of financial capability or social support could assist the individual in avoiding a Poverty Premium.

Even those with strong financial capability and a high level of social support were still unable to avoid paying a Poverty Premium.

Recommendations

Tackling and eradicating the Poverty Premium will require effort on three levels:

- Addressing the continuing mismatch between supply and need (note the focus here is on need, not necessarily articulated demand) in payment choices and support services.
- Recognising the essential nature of social networks in mitigating the impact of the Poverty Premium and resourcing support services which build resilience across these networks.
- Continuing to support the development of financial capability.

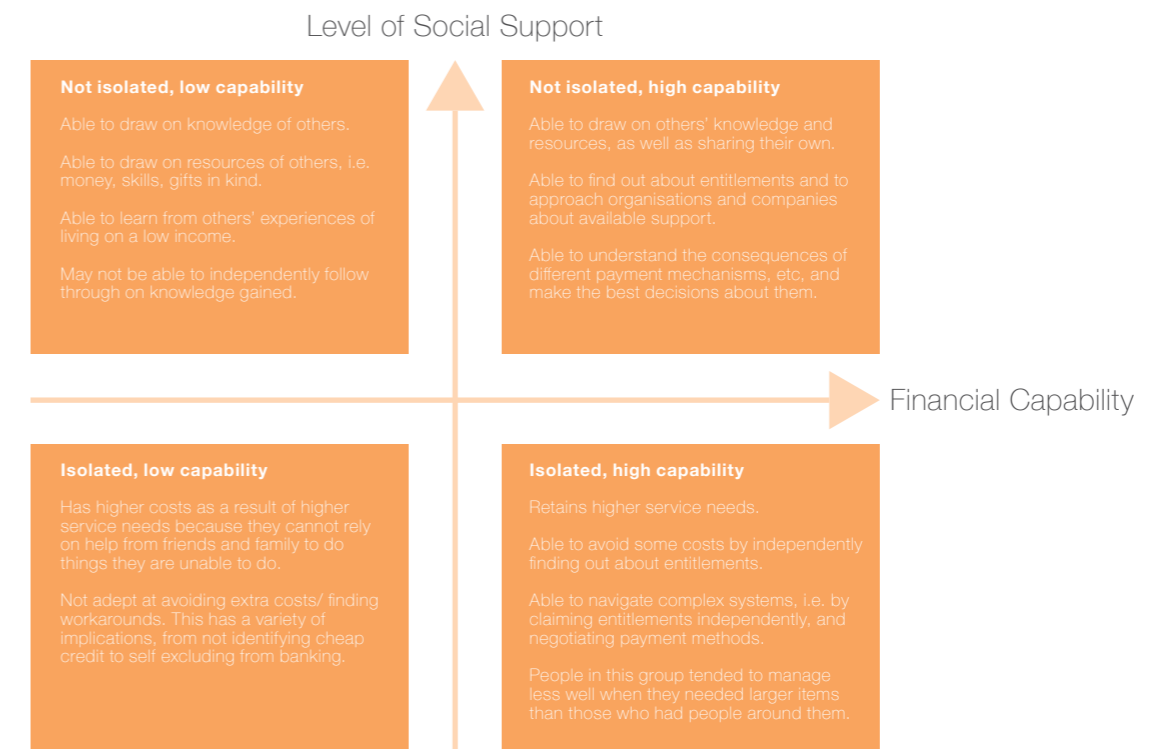
We offer the following recommendations:

- Addressing the mismatch between supply and need for payment services and support services
- Providers of all types need to recognise that the way they transact with service users has the potential to create a Poverty Premium. Consequently, all providers need to identify where their policies and practices are causing unintended or inappropriate increased costs for users, and work to remove or reduce them.
- Financial services providers should be engaged to improve the accessibility and relevance of their products for customers on low incomes. For example, this might be by supporting the introduction of transactional accounts which make it easier to budget and put aside money for bills; working with fuel providers around how they communicate social tariffs or payment options; or creating an alternative form of electronic payment to Direct Debit which is more suited to low income user needs.
- Specialist products and services which reduce the impact of the Poverty Premium for those on low incomes - or with specific needs - should be fully transparent and accessible, rather than being 'hidden from view'.
- Providers of non-financial products and services should be engaged with a view to reframing offers which can exclude customers on lower incomes. For example, multi-buy offers or Direct Debit discounts.
- Lower cost credit must be increased in supply and accessibility, especially for those experiencing emergencies. This is particularly important with the reduction of available loans and grants from the Social Fund.
- Existing sources of low-cost credit should be better promoted, including clarifying misunderstandings about credit unions.

Providers of all types need to recognise that the way they transact with service users has the potential to create a Poverty Premium.

Specialist products and services which reduce the impact of the Poverty Premium for those on low incomes, should be fully transparent and accessible.

Matrix 1: The interaction between the two factors – level of social support and individual has and their level of financial capability



Financial capability

- Policy makers and service providers must recognise that many low-income users make logical financial decisions even if they can end up costing more. Avoiding risk through choosing those payment options which provide the greatest control, even if they cost more, demonstrates a level of financial capability which, once acknowledged, can be harnessed and applied to achieve greater wellbeing.
- Individuals are limited to the range of choices on offer regardless of their financial capability. Therefore, programmes to improve financial capability must be accompanied by improvements to the range of choices available.
- Work within local communities should continue to support people to navigate the financial environment more effectively through financial education programmes. These are proven to have a positive impact on participants' financial well-being, e.g. the Toynbee Hall Community Money Mentors accredited programme.

Supporting effective social networks

- Members of the wider financial inclusion environment, including advice agencies, community and voluntary organisations, should be equipped to support residents in avoiding a Poverty Premium.
- This requires advisers and support workers to have a much deeper knowledge of the causes of the Poverty Premium and ways to avoid and/or mitigate it. This in turn requires effective training in recognising the signs of the Poverty Premium and knowing how to support residents through appropriate conversations, actions and referrals.
- We need to change the way we talk about money across the community. Conversations about money need to feature more prominently within a wider range of services to overcome the taboo of struggling financially, so that those who need help feel able to seek it earlier.
- Policies and programmes which equip communities to help themselves - including education programmes such as Community Money Mentors, as well as incentives such as intergenerational support (childcare, housing costs, etc) - should be prioritised in recognition of the essential role social networks play in mitigating the impact of the Poverty Premium and building resilience.
- Conversely, there are policies and programmes which have the potential to undermine or disrupt existing social networks - such as the relocation of social housing tenants, forms of informal or formal exclusion, and residential care provision for older people and those with specific care needs which can cause isolation. These all need to be tested against the measure of causing as little disruption to networks as possible.

Help us create a future without poverty

Toynbee Hall
28 Commercial Street
London E1 6LS
Tel: +44 (0)20 7247 6943
Email: info@toynbeehall.org.uk

www.toynbeehall.org.uk



Find us on Facebook



Follow @Toynbee Hall

Sign up to our e-news online: [bitly/THenews](https://bitly.com/THenews)

Registered Charity No. 211850. A company limited by guarantee.
Registered Office as shown.
Registered Number. 20080 England

Copyright © Toynbee Hall. All rights reserved.