

# food, fuel, finance

tackling the poverty premium



# Acknowledgements

**Church Action on Poverty** is a national ecumenical Christian social justice charity, committed to tackling poverty in the UK. We work in partnership with churches and with people in poverty themselves to find solutions to poverty, locally, nationally and globally. Further information can be found at [www.church-poverty.org.uk](http://www.church-poverty.org.uk). Registered charity number 1079986. Company limited by guarantee, registered in England and Wales, number 3780243.



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The report, and other resources on the Poverty Premium, are available to download at [www.church-poverty.org.uk/foodfuelfinance](http://www.church-poverty.org.uk/foodfuelfinance).

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# Executive summary

**Conventional anti-poverty strategies have principally focused on measures to boost household incomes. But can we find ways of tackling poverty by reducing household costs?**

**The average annual Poverty Premium paid by low-income households is £1,280**

**T**his report presents findings from 'Closing the Gap in Scotland', a partnership between a number of organisations to explore solutions to the 'Poverty Premium'. It also draws on Church Action on Poverty's wider work on the Poverty Premium and how it affects people's lives across the UK.

The Poverty Premium is the additional cost for essential goods and services accruing to people living in poverty as a result of their low incomes. It is estimated that the average annual Poverty Premium paid by low-income households is £1,280. Assuming that at least three million households are affected by the Poverty Premium, this amounts to a staggering £3.8 billion each year. In combination with stagnant incomes, low wages, falling benefit levels and rising prices, this is an expense that families in poverty cannot afford.

Markets are currently failing to serve people who are already struggling to make ends meet. It is a basic injustice that the poorest end up paying more than wealthier citizens for everyday essentials:

**Food:** the rising cost of food is a particular problem for low-income households, who have less disposable income to spend on food. Food is often more expensive in poorer areas where access to big supermarkets is limited.

**Fuel:** low-income households pay higher-than-average prices for gas and electricity. Households who use prepayment meters pay on average £253 more per year than those who pay by direct debit.

**Finance:** excluded from mainstream credit, people on low incomes are reliant on high-cost credit offered by doorstep or payday lenders, frequently charging interest rates in excess of 1,000% APR.

**Furniture:** with little or no savings or access to cheap credit, people have no option other than to purchase furniture and household appliances from 'rent-to-own' companies. Market leader BrightHouse charges almost four times the price of the identical goods bought elsewhere.

**Funerals:** with affordable options not available or properly advertised, people often pay more than they can afford for funerals. Whilst funeral costs have risen by 80% since 2004, UK government funeral grants have been frozen and now cover less than 40% of the average cost of £3,456.

As this report demonstrates, there are viable solutions to the Poverty Premium. However, there are considerable challenges involved in developing workable and large-scale responses:

- Based on the Poverty Truth Commission's principle that '**Nothing about us, without us, is for us**' – what do people directly affected by the Poverty Premium think are the most important issues and solutions?
- What **existing approaches** can reach the most people locally, create the biggest reduction in costs, and be replicated elsewhere?
- What role can **local communities, agencies, government and regulators** play in reducing the Poverty Premium?
- Can we persuade **businesses** to significantly reduce the Poverty Premium for low income consumers?

## What we're calling for

Our recommendations are listed in more detail on page 17.

- The principle '**Nothing about us, without us, is for us**' should be at the heart of all actions that are taken to address this problem.
- The **Scottish Government** should develop a **plan for tackling the Poverty Premium** in partnership with communities.
- The **UK Government** should develop a **strategy for reducing the Poverty Premium** over the lifetime of the next Parliament.
- **Businesses** which provide food, fuel or finance should **commit to reducing the Poverty Premium**.
- **Regulators** should adopt a **much more robust approach to tackling the Poverty Premium**.
- **Local authorities, social landlords and others** should explore **collective purchasing** of food and fuel, **district heating systems**, and **community energy co-operatives**.
- The **partners** in this project should pilot a '**community hub**' approach to delivering affordable goods and services in Glasgow.

# Introduction

**This report presents findings from ‘Closing the Gap in Scotland’, a project with Scottish partners to explore solutions to the unjust ‘Poverty Premium’. It’s also a general introduction to the Poverty Premium and how it affects people’s lives across the UK.**

**‘Closing the Gap in Scotland’** has been part of our wider ‘Food, Fuel, Finance’ programme, working to ensure people on low incomes pay Fair Prices for everyday essentials. ‘Closing the Gap in Scotland’ has begun to identify exciting positive solutions which could help people to avoid the Poverty Premium in future, and we’re delighted to showcase some of them here. We’re grateful to all the partners who supported the project: the Iona Community, Christian Aid Scotland, Faith in Community Scotland’s Transformation Team, the Episcopal Church in Scotland, the Poverty Truth Commission and the Poverty Alliance.

We define the Poverty Premium as the additional costs for essential goods and services accruing to people living in poverty as a result of their low incomes. These costs may be up to £1,500 per year for an average family, and they arise from a variety of causes including pricing strategies, lack of competition, additional service delivery costs in poor communities, different energy needs for certain groups, and differing payment methods. A range of market sectors are affected, from funeral services to white goods. However, the most common examples affect food, fuel and finance, so these are the areas we explored.

The Poverty Premium is an important issue for several reasons. Save The Children has conducted research analysing the cost to households, and Consumer Futures has looked at market failures in energy markets with a particular focus on the Poverty Premium; but there have been remarkably few projects designed to challenge these problems. Poverty reduction work in this country is predominantly focused on protecting and improving people’s incomes – but it is a great injustice that people living in poverty should have to pay higher prices for the same items than someone living more comfortably.

The central value underlying our work is the founding principle of the Poverty Truth Commission: “Nothing about us without us is for us.” People living in poverty have to be put at the heart of any plans to support them, since they are the experts on their problems and the solutions.

With this in mind, the project was structured around a series of focus group discussions with a range of people affected by different kinds of poverty. These focus groups reflected on the issues and their effects, before moving on to discuss and develop potential solutions. The three areas to be addressed – food, fuel and finance – were each approached separately. While a great deal of crossover between these domains was expected

and was clearly heard in the focus groups, it was felt that the very different markets that exist in each area would be easier to analyse in isolation. Nevertheless, some of the ideas that emerged seek to address both food and fuel issues, and any improvement to the overall budget of a household makes financial issues rather easier to handle. The relationships between these issues should always be borne in mind when devising solutions, and our focus group participants were mostly very conscious of these connections.

Following on from the focus groups, we held a series of roundtable events and wider consultations with other interested parties including churches and faith groups, other charities and campaign groups, businesses, academics, and both local and national politicians. The events brought these groups together with people living in poverty, in order to hear their testimonies and to explore and expand on their suggested solutions. Some of these solutions have already begun to be implemented by communities working autonomously, while others form our recommendations for further work (see page 13).

Above all, though, we would recommend that anyone seeking to implement any of these solutions conducts a thorough analysis of local conditions. Across Scotland, the types and effects of Poverty Premium that emerge are influenced by differences in housing stock, communications and energy supply infrastructure, access to markets in goods and services, transport links, employment conditions and many other elements – not to mention the particular wants and needs of people in each area.

**“Nothing about us without us is for us.” People living in poverty have to be put at the heart of any plans to support them**



# What is the Poverty Premium?

## Why does it cost more to be poor?

**“Anyone who has struggled with poverty knows how extremely expensive it is to be poor.”**

James Baldwin, US novelist, essayist, playwright, poet, and social critic



According to Save the Children (2010):

**“The Poverty Premium is a notional extra cost that people on lower incomes can pay for goods and services, compared with the cost that is paid for some goods and services by higher-income families.”**

Due to the way that markets are structured at present, those on the lowest incomes pay the highest unit prices for essential goods and services such as food, fuel and finance. They have weaker market power, meaning that they are unable to choose cheaper options.

It is estimated that the average annual Poverty Premium paid by low-income households is £1,280.<sup>a</sup> Assuming that at least three million households are affected by the Poverty Premium, this amounts to £3.84 billion each year. In combination with stagnant incomes, low wages, falling benefit levels and rising prices, this is an expense that families in poverty cannot afford.

Research has found that paying higher prices for utilities and credit can raise the cost of a minimum household budget by around 10%. This can further exacerbate poverty and hardship: for someone already on a low wage it can make the difference between being £9 and £34 a week short of meeting their needs (as specified in guidelines on the Minimum Income Standard).<sup>b</sup>

One reason for low-income households' lack of market power is their exclusion from communications. Only 26% of low-income households have home internet access (compared to 73% nationally). This limits their access to lower-cost financial products and services, online savings accounts, cheaper energy tariffs and cheaper goods.

The key areas where people are forced to pay the Poverty Premium include:

- **Food.** The cost of food has risen substantially in recent years. This is a particular problem for low-income households who have less disposable income to spend on food. Food is often more expensive in poorer areas where access to big supermarkets is limited. People in poorer areas often have less access to healthier foods as well.
- **Fuel.** Low-income households pay higher-than-average prices for gas and electricity tariffs, or pay more per unit of consumption. 13% of households pay for energy by prepayment meters, which costs on average £253 more per year than paying by direct debit.
- **Finance.** People on low incomes pay the highest interest rates on consumer credit. 1.5 million households have no access to the most basic financial products such as bank accounts and loans. A further 4.4 million are on the margins of financial services. Excluded from mainstream credit, these people are reliant upon high-cost credit offered by doorstep lenders, payday lenders or rent-to-own companies (who on average charge £82 for every £100 borrowed).<sup>c</sup>
- **Insurance.** Because deprived areas tend to have higher crime rates, low-income households in these areas pay on average 48% more for car insurance and 93% more for home contents insurance.<sup>d</sup>
- **Furniture.** Unable to cover large one-off expenses, people on low incomes who need appliances or other items of furniture often have no option other than to purchase them through rent-to-own companies. They end up paying significantly more than they would if they bought the items through other channels.
- **Funerals.** People often pay more than they can afford for funerals. Affordable options are often not available or properly advertised. Funeral costs have risen by 71% since 2004 to an average of £3,284. A government grant is available to help with costs but it has not been increased since 2003; the average total award to those on low incomes stands at £1,250, and almost half of all applications are rejected.<sup>e</sup>

## The effects of the Poverty Premium

Grassroots work by Church Action on Poverty and partner organisations (in Greater Manchester, Stockton-on-Tees and Goldthorpe, Yorkshire, as well as in Glasgow), has found that the Poverty Premium is a big problem. People in these communities were affected by low incomes and high prices, a lack of choice about paying over the odds for essential goods and services and a sense of vulnerability, powerlessness and isolation. People wanted to have a choice about and control over the costs of goods and services, and to be able to influence change and challenge those who provide services.

Around one fifth of the UK population (13.5 million people) live in low-income households. This includes a substantial proportion of working people (around 60% of adults in poverty are employed). For people in poverty, unplanned expenditure (due to an emergency or unexpected price increase) can have a severe impact on household finances; it could mean that a household has to suddenly cut back on heating or food or resort to doorstep lenders or payday loans. Research has found that low-income consumers therefore prioritise control, clarity and convenience over long-term cost. They cannot risk being charged the fees and penalties for missed payments that come with more mainstream products. Instead, many low-income consumers rely on more expensive payment methods and financial products, such as cash payments, doorstep loans and prepayment meters.<sup>f</sup>

Financial choices are also affected by employment status, internet access, place of residence and income level. Low-income consumers have more limited access to the internet and therefore less access to information, financial management and cheaper prices. Mainstream financial providers have often closed down their branches in low-income areas, and have shown that they are not interested in lending to low-income customers – who are seen as high-risk and low-profit. This has created an opportunity for high-cost lenders to step in and offer their products to people on low incomes who have no access to other financial services.

There is a clear market failure to provide for the needs of low-income groups. The lack of competition to supply affordable products to low-income users causes prices to be higher. In some cases (e.g. prepayment meters and high-interest credit) there is clear evidence of uncompetitive behaviour to the detriment of low-income consumers.<sup>g</sup> Regulation and government intervention could help through ensuring fair trading and competition, intervening in product and pricing structures or by giving direct help to vulnerable consumers, for example through social tariffs or bill reduction.

**There is a clear market failure to provide for the needs of low-income groups**



Church Action on Poverty has carried out research on different aspects of the Poverty Premium since 2010.

# Food: walking the breadline

Combined with other factors, the rising cost of food is having a devastating impact for people on low incomes.

## Voices from Scotland

Here are some of the findings from the focus groups we held in Scotland:

- Many people on benefits are barely able to eat once fuel and other expenses are taken into consideration. One of the first responses to our question “How are you managing with your food budget?” was “What food budget?”
- Most people shop around, budget carefully, and manage their food supply well by planning meals and using left-overs. Some parents even go without food to ensure their children eat well. Despite all of this, incomes are simply too low to provide an acceptable standard of living.
- Because of recent inflation affecting food prices – in particular for fresh fruit, vegetables and fish – people cannot afford to buy and prepare fresh food, even though they are aware their diets are unhealthy and are willing to change them.
- Although pre-prepared microwave meals are expensive to buy, the rising cost of energy means that they are overall cheaper than, for example, roasting a chicken.
- People living in rural areas are particularly affected by the Poverty Premium on food due to the lack of supermarkets close to them. They rely on smaller shops selling more expensive, lower-quality food. The lack of travel options and the cost of travelling to supermarkets mean that people on lower incomes are disproportionately affected.
- People often lack the assets to improve their situation. Limited cooking facilities, a lack of storage space (in particular refrigerated storage), and less efficient white goods all compound their problems. For some, a lack of skill holds them back from cooking nutritious food.
- People are very interested in growing their own food, whether on farms or on smaller plots within the city. But they generally don't have access to land, or the expertise to manage gardens effectively.
- There is wide support for community retail or group purchasing (see opposite page). Older people remembered fruit barrows, butchers and fishmongers who were well known within the community and offered better advice and service than supermarkets. Many people feel that supermarkets have a negative influence on the community in any case.

**“We only have proper meat once a month now.”**

Tracy, a food bank user from Essex, interviewed by Oxfam for our *Below the Breadline* report



**“What food budget?”**

Participant in our Poverty Premium roundtables in Scotland

**F**ood poverty is increasing at an exponential rate in the UK. Recent figures show that in 2013–14 over 913,000 people were provided with emergency food aid by Trussell Trust food banks. Independent food banks also provided food aid for at least another 500,000 people, so that the total number of people in need of food aid may be anything between 1.5 and 2 million<sup>h</sup>.

Rising food prices, stagnant wages, benefit delays and sanctions, and the increased cost of living are all to blame for the increase in food poverty. Research has found that people are buying less food than they were five years ago, but are spending a greater proportion of their household income on food.

The increased cost of food is a particular problem for low-income households who have less disposable income to spend on food. Food prices can also vary from one area to another, and food is often more expensive in poorer areas where access to big supermarkets is limited. People living in low-income areas may not be able to afford to travel to bigger supermarkets where food is cheaper, so they are forced to pay more for a typical basket of goods. In particular, healthier food is more expensive. Poorer people find themselves buying less healthy food that will keep them feeling full for longer but have to sacrifice more expensive fruit, vegetables and meat as they are unaffordable.



# Tackling the Poverty Premium on food: positive ideas

## Real Food. Wythenshawe.

Real Food ([www.realfoodwythenshawe.com](http://www.realfoodwythenshawe.com)), a five-year large-scale project in Wythenshawe near Manchester, aims to get the local community growing and cooking their own food. Local residents can get involved in the project and learn how to grow their own fruit and vegetables while helping on the project's allotments.

They aim to create a sustainable indoor growing system, and demonstrate how sustainable food production can be achieved in an urban setting. New growing spaces will be created on unused land, residents will grow food in their own gardens, and the project will map existing fruit trees to reintroduce people to foods available on their doorstep.

They also operate a food bank, deliver public cooking demonstrations, and are about to start providing people with thermal cookers and training to use them.



## Glasgow Locavore

Locavore (<http://glasgowlocavore.org>) is a Community Interest Company based in the south side of Glasgow which works to create and support sustainable local food economies.

Their current activities include creating an exemplar aquaponics system within the St Enoch Shopping Centre, running a not-for-profit local food shop/hub, and providing local, organic veg bags to over 100 households per week by subscription. They also host community garden sessions, deliver cookery workshops, and are working to develop a market garden within the urban fringes of Glasgow.



## Food hubs

Woodlands Community Garden in Glasgow ([www.woodlandscommunitygarden.org.uk](http://www.woodlandscommunitygarden.org.uk)) runs weekly local food social support hubs to tackle food poverty and create stronger links between organisations. Hubs offer free, healthy, vegetarian food in a friendly supportive environment which helps reduce isolation. They bring people and support organisations together, enable access to information, advice and support, and encourage peer-to-peer support and volunteer opportunities.

The Garden also runs free cookery classes for groups and organisations, supports people to grow their own food, and seeks to increase the amount of food grown and eaten locally.



## Community shops

Community shops are businesses run by communities for their own local benefit. They are involved in at least one part of growing, harvesting, processing, distributing, selling or serving local food or retailing other goods and services for community benefit.

- The **Plunkett Foundation** ([www.plunkett.co.uk](http://www.plunkett.co.uk)) offers advice and support to set up urban community shops based on their successful village community shop initiative. Community Shops are social hubs, catalysts for entrepreneurs, supporters of local industry, provide employment and training opportunities for all ages, and are flexible in the services they provide.
- In **Ruchazie in Glasgow**, a group is setting up a community shop, and an emerging local food network is looking at sustainable food systems.
- **FARM:Shop** in Hackney (<http://farmlondon.weebly.com>) is an urban food 'Hub', cafe and arts venue complete with mini 'aquaponics' fish farm, chicken coops, indoor allotments and polytunnel – all based in a once derelict shop in Dalston Lane, and tackling the Poverty Premium on food by growing food locally so it can be sold cheaply.
- **GroCycle** in Exeter (<http://grocycle.com/urban-mushroom-farm>) has converted a disused office building into an urban mushroom farm right in the heart of the city. Each week, hundreds of kilos of coffee grounds are collected from city cafes and used to grow delicious oyster mushrooms which are delivered to food outlets in the South West of England. Waste from the growing cycle is turned into compost for local use.





# Fuel: heat or eat?

**Everybody has felt the impact of rocketing energy prices. But they are especially bad news for people on low incomes.**

## Voices from Scotland

We held focus groups with people on low incomes about their experience of fuel poverty, and then consulted with workers in the industry. Here are some of the findings:

- Thanks to recent inflation in prices, fuel is in some cases so expensive that it leaves people without money to pay for food and other necessities (such as household goods, clothes, or Christmas and birthday presents for children).
- People are being forced to live in really cold conditions. When we asked whether people were achieving the recommended temperature of 18-25°C, most simply laughed, believing this to be an impossible standard – especially in winter.
- Many people prefer to use prepayment meters (PPMs) for electricity and gas, rather than direct debit. They are usually aware that prepayment tariffs are more expensive, but it allows them to maintain tighter control over their spending.
- Those using PPMs have often ‘self-disconnected’, and almost all deliberately minimise energy use (e.g. by keeping all lights and heating off) for days at a time when money is short.
- The way debt is automatically deducted from PPM top-ups is a real problem for people on the lowest incomes. It makes budgeting difficult, and debt can even accrue while people are away from home due to standing charges etc.
- Almost no one was aware of ECO and other energy efficiency schemes (see page 12). Most live in social housing, so improvements are beyond their control anyway. But most would be interested in learning more.
- Those who *have* used the ECO programme experienced problems. Most felt that they were never really treated as the clients; several were kept waiting in vain for workers to arrive, and treated rudely when they complained.
- Social housing providers sometimes target energy efficiency work inappropriately, so that those in most need do not have their homes treated first.
- In the private rented sector, landlords benefit from ECO cash to improve their properties, but the low-income tenants who are supposed to benefit actually have very few rights. People who complained about poor conditions had in some cases been accused of ‘trouble-making’ and threatened with eviction.
- Very few people even consider switching suppliers, let alone actually making the change. There is a lack of clear, intelligible information about tariffs, processes are confusing, and people feel that “they’re all the same anyway.” For some, limited internet access makes it difficult to compare suppliers.
- People are angry that energy companies make record profits while consumer bills rise unmanageably. There is also a lot of anger about poor customer service. A particular problem for people on low incomes is the use of customer service numbers that are not free to call, especially expensive non-geographic numbers.
- Industry workers complain that the timescales of government schemes are unrealistic, preventing companies from recruiting, training and retaining qualified personnel efficiently. Most also find that navigating government schemes is very costly both in time and money.
- The criteria and limits on ECO funding are not always well suited to housing stock in Scotland. For example, ECO will not normally fund double glazing for homes because it is not deemed to make a big enough difference to energy efficiency – but it could make a significant difference in Glasgow tenements because of their large bay windows and high ceilings. Homes in the Highlands and islands tend to have non-standard constructions, which are not suited to the conventional types of insulation offered through ECO.
- Rural Scotland is particularly badly served by the gas network, so rural homes tend to use much less efficient electric heating systems.

**T**he increasing cost of energy in the UK has regularly hit the headlines over recent years. The average fuel bill is at a record high, and prices have increased by over £800 a year over the last 10 years. Combined with the economic downturn, cuts to benefits, and lower wages, rising prices have contributed to a significant increase in fuel poverty. Fuel poverty affects over seven million people across the UK, and more people are struggling to pay their fuel bills each year. People are unable to heat their homes to an adequate standard: they have to make the choice whether to heat their homes or put food on the table, and in some cases they can't afford to pay for the energy it would take to cook their food.

The Poverty Premium further disadvantages the poorest households, who often pay more for their energy through prepayment meters and higher tariffs. Prepayment meters can be up to five times more expensive than credit meters<sup>i</sup>, and prepayment customers often have to pay a standing charge on top of their energy costs. Prepayment meters are increasingly installed to recover debt, so they are linked to the financial problems of low-income consumers. The annual income of households using prepayment meters has been found to be markedly lower than households that use credit meters. More than half of all households using prepayment meters received some kind of means-tested benefit or disability benefit, and one third were home to someone with a long-term physical or mental health condition or disability.

Low-income customers who cannot pay by monthly or quarterly direct debit (because they do not have a bank account or need to budget carefully) also lose out on the extra savings made by online and direct debit customers.

Energy companies are not allowed to put vulnerable customers at risk by disconnecting their supply. However, they continue to put people at risk by installing prepayment meters – often without the customer's consent – which then cause them to “self-disconnect” if they cannot afford to feed the meter.

In our own work with people experiencing fuel poverty, Church Action on Poverty found a range of other problems associated with prepayment meters, including poor customer service and poor access to the meters themselves. A particular concern is that when a new tenant moves into a property, they can find themselves paying off debt which had been accumulated by the previous tenant. One person we worked with had to spend months negotiating with her energy provider before they corrected this problem and repaid her £400 that had been taken to pay somebody else's debt.

Exacerbating the situation, many properties around the country are in a poor state of repair, including problems with damp or mould, poor insulation, broken heating systems, and in extreme cases no hot or cold running water. Tenants in the private rented sector are often reluctant to ask their landlords to carry out repairs to their properties because they fear their landlords will evict them rather than deal with the problems.

‘Retaliatory evictions’ are becoming an increasing problem in many areas, whereby the landlord evicts the tenants if they make a complaint. Many families and individuals live in overcrowded or cold, damp and dangerous conditions because their properties are not maintained to a basic standard. In the last year alone, 213,000 people were either evicted or served with eviction notices after complaining to their landlord about a problem with the property that was not their responsibility. Sarah Teather MP has recently tabled a Private Members Bill<sup>ii</sup> to stop retaliatory evictions, but it will take some time before this becomes law and is enforced.

Poor housing conditions mean heating and other energy costs are more expensive as the house is harder to heat. There is also a close association between cold homes and cardiovascular and respiratory medical conditions; cold housing can exacerbate rheumatism and arthritis, has a negative impact on mental health, and hinders educational attainment and healthy eating. In Liverpool alone, poor housing conditions are implicated in 500 deaths and 5,000 illnesses requiring medical attention each year.<sup>k</sup>



Photo from Zacchaeus 2000, zzk.org



**Inflation in fuel prices means that people's budgets are squeezed beyond breaking point**



**“Aren't we ashamed that people are eating cold beans and stewed steak from the tin because they can't even heat it up?”**

Jack Monroe, food poverty campaigner



# Tackling the Poverty Premium on fuel: positive ideas

## Energy efficiency schemes

ECO (Energy Company Obligation) is a scheme which pays for insulation in privately rented accommodation to be upgraded. However, tenants who used the scheme – or even just planned to use it – have encountered problems.



The improvements made to the property enable landlords to raise the rent, which can push up the housing benefit bill, or even force the occupant to leave if their housing benefit and income won't cover the increased rent. In some cases, the landlord has even evicted the tenants and sold the property at a profit.

Tenants need to have more rights in these kinds of situation, and there should be a way of recovering the cost of the improvements if a profit is made through them. Programmes like this also need to be more sensitive to the variation in housing stock and climate in different parts of the UK.

A related issue is that older (and cheaper) white goods are often less energy-efficient than new and more expensive items, causing additional expense for people on low incomes. This could be solved with either a subsidy on more efficient devices or a trade-in scheme (similar to the US 'cash for clunkers' programme which allowed people to trade in older, less efficient cars for new more efficient ones).



Community energy generation on Westray

## District heating schemes and community energy

**District heating schemes** collectively heat multiple homes in an area, using surplus heat from industrial processes, from conventional or renewable fuel sources or even from a community compost pile. These schemes are commonplace in Finland, where the winter mortality rate is much lower than the UK's in spite of its much colder winters. They are now beginning to be introduced here. For example, Glasgow's Queen Cross Housing Association recently installed an 'Ecopod' green energy system which serves more than 500 households in an area classified among the 15% most deprived in Scotland (Scottish Index of Multiple Deprivation 2012).

Another collective approach is to set up **community energy co-operatives**. This has been particularly effective in rural areas, such as the Isle of Eigg, where expensive personal generators have been replaced with locally-owned renewable production (see [www.isleofeigg.net/eigg\\_electric.html](http://www.isleofeigg.net/eigg_electric.html)).

In urban areas of Scotland, some housing associations are beginning to try the same approach (see [www.scotregen.co.uk/wp-content/uploads/2013/05/Community-Energy.pdf](http://www.scotregen.co.uk/wp-content/uploads/2013/05/Community-Energy.pdf)). On a larger scale, Aberdeen City Council established a community energy mutual 10 years ago to tackle fuel poverty in the city. Focusing its efforts on the least thermally efficient properties, the mutual has now completed five projects, connecting them together with a district heating system, serving approximately 1,500 flats and nine public buildings, and is financially self-sustaining.

## Helping people to switch suppliers and manage prepayment meters

In 2013–14, Church Action on Poverty ran a participatory training programme with people experiencing fuel poverty in Salford. The process uncovered many issues connected to prepayment meters, some of which are listed on page 11, and fed into our report *Let Us Switch!* ([www.church-poverty.org.uk/switch](http://www.church-poverty.org.uk/switch)). The participants have now constituted themselves as a group working to tackle fuel poverty locally. They are exploring various ways to address the Poverty Premium on fuel.

- They have produced an **information booklet 'Guide to using Prepayment Meters for Gas and Electricity'**, which provides advice on how best to manage PPMs, avoid unfair charges, and switch to cheaper tariffs or providers. The guide is available to download at [www.church-poverty.org.uk/switch](http://www.church-poverty.org.uk/switch), and they are working to distribute it to low-income households in Salford.
- They have worked with a social enterprise called **CommunitySwitch** (<http://community-switch.co.uk>), which helps people on low incomes to switch to more affordable tariffs for their energy. Similar energy comparison services are provided by Citizens Advice, Which?, uSwitch and Money Supermarket.





# Finance and furniture: legal loan sharks

**High-cost lenders prey on people who are unable to get credit anywhere else.**

## Voices from Scotland

Here are some of the findings from our focus groups and roundtable discussions:

- There is a complete lack of trust in financial institutions. Almost everyone we spoke to has access to a bank account, but few leave their money there for any length of time, and almost none use direct debits. Many have been caught out in the past by direct debits being taken on the wrong day, sometimes leaving them in serious financial crisis. People would rather incur the Poverty Premium by paying over the counter, than risk paying their bills through the banking system.
- Most people have no access to conventional short-term finance like credit cards and overdrafts. Some have been offered credit cards (generally at relatively high interest rates) but turned them down, knowing that the temptation to spend would be too great and the costs would be too high.
- Most people do understand that high-cost forms of credit such as payday loans are dangerous. In our focus groups, people spoke about friends and family members who had bad experiences with payday loans. Because of this, nobody we spoke to would ever consider taking out a payday loan.
- Some younger people find the ease of catalogue shopping very tempting, even though they know that the terms of credit lead to prices which are higher than buying in the shops.
- Some people – in our focus groups, particularly mothers – feel a need to spend to ‘keep up with the Joneses’. Some sacrifice their own wellbeing in order to spend money on the ‘right’ clothes for their families.
- Overall, the people we spoke to manage their budgets very carefully indeed. People of all ages made it very clear that their budgets did not allow them to buy anything more than the bare essentials.
- Most people are aware of credit unions, but feel unable to make use of them because they have nothing available for saving. Again and again, people stressed that the fundamental cause of their financial difficulties was low incomes. Difficulties with financial products and services will not change significantly unless people’s incomes increase.
- Some groups – exclusively of women, in our study – use ‘ménages’ as a means of saving. This traditional community saving model, where everyone pays in an amount regularly and takes turns at getting the whole amount, is effective because the cost of entry is relatively low and the personal trust between members ensures honest transactions more effectively than any trust that could be built up between participants and a bank. The small scale and tiny administrative burden also make this an easy system for groups to establish. Such models are often used to save for Christmas, but can easily be adapted and built on to develop other microfinance models.





For poor households, unexpected expenses can cause a severe crisis

**T**he **Poverty Premium** particularly affects finance. From payday loans to credit for the purchase of white goods and other furniture, the poorest pay the most. Poorer customers do not have access to mainstream financial services; many do not have even a basic bank account nor access to reasonable credit facilities. Nine million people in the UK do not have access to credit from banks, and research shows that most people who do not have a bank account in the UK fall in a low-income bracket. 70% of people who use home credit (such as doorstep or payday loans) believe it would be difficult or impossible for them to borrow from a mainstream lender.<sup>m</sup>

This means that they have to use cash to pay bills, which is usually more expensive and inconvenient; they miss out on discounts that are available when paying by direct debit or online. Although many low-income consumers prefer to pay by cash as it helps them stay in control of their finances, they face the limitations of not having a debit card and not being able to receive incoming payments (e.g. to cash a cheque they have to pay a fee). Some people have a basic Post Office account in order to receive incoming payments, but these customers can only access their money during Post Office opening hours and they do not get a debit card.<sup>n</sup>

In addition to all these constraints, they can only borrow money from high-cost lenders, paying an enormous Poverty Premium. Despite recent moves to regulate payday lenders, the interest rates and fees charged by these companies can still be enormous. Interest rates can be up to 5,000% APR. The industry makes huge excess profits by exploiting vulnerable customers who have nowhere else to go. The market is failing to meet customers' needs; the home credit industry was referred to the Competition Commission as long ago as 2004. These companies have benefited hugely from the financial insecurity created by the economic crisis. As more and more people find themselves depending on loans to get by, the payday lending industry has more than doubled its profits since 2011.<sup>o</sup>

Living on a tight budget means that money has to be rationed carefully, day-to-day or week-to-week. There is no flexibility in the budget of low-income households, and barriers to credit further exacerbate this situation. Higher-income households may have the benefit of an authorised overdraft or an interest-free credit card to deal with unexpected expenses such as a broken cooker or washing machine; for poor households, unexpected expenses can cause a severe crisis, resulting in a restricted food or heating budget or being forced to turn to doorstep lenders or payday loan companies.

## Tackling the Poverty Premium on finance: positive ideas



East Leeds  
Debt Forum



West Leeds  
Debt Forum



South Leeds  
Debt Forum

### Debt Forums

Debt Forums have been established in East, West and South Leeds by local churches, advice centres and credit unions to provide advice and to campaign on alternatives to loan sharks and payday lenders. Forum members include a wide range of statutory and voluntary agencies in contact with people in debt, ranging from doctors' surgeries and Citizens' Advice Bureaux to local council departments and fully trained debt advice workers.

The Forums were developed for local people, by local people to provide help locally. They are built on the recognition that 'advice' is not the only way of helping people with debt. Their range of members enables them to look at other responses such as access to affordable credit through credit unions, support for getting people into employment, access to support services, and access to food banks.

Their current initiatives include: low-interest emergency loans being developed by credit unions as fairer alternatives to loan sharks and payday lenders; and work to develop credit unions into locally-owned banks which would combat poverty by increasing community wealth.



## Accessing electricals and white goods

Because people on low incomes often do not have the savings to cover large one-off expenses, needing new furniture or white goods is one of the most common reasons for people to end up in debt. There is a need for ways of buying these items at affordable prices, rather than the extremely high prices charged by 'rent-to-own' companies.

- **Doncaster Refurnish** aims to save some of the huge amount of perfectly functional furniture which goes to landfill every year. They collect and restore this furniture so that it can be sold to local people at an affordable price. Many of the people employed by Doncaster Refurnish are from disadvantaged backgrounds, have special needs or are facing long-term unemployment. As well as recycling furniture, they provide volunteering, training and work experience placements. They also have contracts with statutory and private partners to remove household and electrical goods, and they sell some new furniture and electrical goods at reasonable prices.
- **Smarterbuys** in Northern England is affiliated with a number of local housing associations. They provide new furniture and white goods through a local credit union, the Post Office or PayPoint, at affordable prices. They also provide 25p a week of savings when credit is accessed through the Smarterbuys store. Unfortunately, Smarterbuys is only available online, which limits its availability for some people on low incomes.



Recycling furniture can provide work as well as meeting people's needs more affordably



Archbishop of Canterbury Justin Welby famously announced that he wants the Church to put payday lenders out of business

## Credit unions<sup>p</sup>

Noting the growing problem of high-cost lenders, both the Church of England and the Church of Scotland have pledged to work with credit unions to provide an alternative source of credit for financially vulnerable people. Credit unions offer loans at much more affordable rates than the high-cost doorstep or payday lenders. They have other advantages over the rest of the financial sector: they are community-led; profits are fed back into the community as interest for savings, rather than being drained away by uninterested shareholders; and being relatively self-contained, credit unions are protected from financial instability. However, they are not always available or well publicised. The hope is that the Church's presence in every community can help extend the reach of the credit union movement.

One example of their approach is in Burgess Hill, West Sussex, where the Church of England is working with the West Sussex Credit Union. Being run out of St John's, the local parish church, means that West Sussex Credit Union offers a friendly and unintimidating atmosphere that will already be familiar for many patrons.

St John's is also part of a network of 'Credit Champions' which has been set up to promote responsible lending and saving – reflecting the power of credit unions to promote financial literacy in general. As Sir Hector Sants (ex-investment banker and financial regulator) has said: "Churches should be educating the next generation in financial literacy; influencing people who can change the status quo; providing room for credit unions; and supporting the local community."

# Funerals: the high cost of dying

**This aspect of the Poverty Premium hits people at one of their most vulnerable times.**



**“Funeral directors asked for a £2,000 deposit... When I didn’t have this they sent me away.”**

Andrew, speaking to Quaker Social Action

**F**uneral poverty results from the rising cost of funerals. But a recent report<sup>a</sup> by Bath University showed how grief and bereavement can also have adverse long-term economic consequences over and above these increasing costs, leading to debt, poverty, emotional and psychological distress and clear additional health and social care implications for those people left behind. All of this hits people in poverty hardest.

- From 2004 to 2012, funeral costs have increased by 80%. There was a 6.2 % increase in costs just from 2011 to 2012.
- The average cost of a basic funeral is now £3,456, while extra ‘discretionary’ costs such as headstones push the cost to over £7,600.
- Funeral costs are predicted to continue to rise significantly, and will average £4,326 by 2018.
- One in five people who have organised a funeral in the last four years have struggled to pay the costs, with the shortfall increasing year on year and now averaging £1,277.
- Funeral poverty has increased by 50% in the last three years, and currently stands at £131 million.
- People who are on benefits and/or living in areas of high deprivation are at an increased risk of funeral poverty.

Funeral poverty will continue to increase, due to:

- continued inflation in associated expenses, caused by councils privatising crematoria, companies continuing to raise prices, and other factors;
- an ageing population;
- an increase in end-of-life expenditure such as care costs that erode any savings;
- lack of information and timely financial advice
- inability to navigate the complexities of the Social Fund system;
- benefits and pension pots being squeezed by inflation;
- benefit cuts, delays and sanctions;
- rising levels of job insecurity and low pay.

## How do people cope?

- 61% of people who encountered funeral poverty covered the shortfall by borrowing.
- 31% borrowed from friends and relatives.
- 20% used a credit card.
- 10% borrowed from loan providers.
- The rest paid the funeral directors in instalments or sold personal belongings to cover the cost.
- Funeral directors can then be left with bad debts when payment is not forthcoming.

Funeral poverty has health and social implications as well as financial. At least 50%, and perhaps as many as 90%, of people in debt feel anxious or depressed. The link between debt stress, social deprivation and depression is well established, as is that between grief, bereavement and depression. So funeral poverty can cause a downward spiral of financial difficulties and prolonged debt that can lead to a variety of additional health and social problems.

Church Action on Poverty has been working with Quaker Social Action (see the boxed text) to listen to the stories of people experiencing funeral poverty, and develop solutions.

## Tackling the Poverty Premium on funerals: Down to Earth

Quaker Social Action’s award-winning ‘Down to Earth’ project ([www.quakersocialaction.com/downtoearth](http://www.quakersocialaction.com/downtoearth)) provides a volunteer mentor-led funeral brokerage and support service, giving advice and assistance to people on low incomes as they negotiate funeral and other arrangements. Services include:

- Telephone signposting to appropriate services
- One-to-one planning sessions with the ‘Down to Earth’ funeral planning pack
- Support in filling out Social Fund claim forms or making loan applications
- Support in meeting funeral directors and other official appointments
- Providing a neutral viewpoint and unbiased feedback on decisions
- Gently guiding people through the whole funeral process

# Recommendations

**These are the actions we're calling for, based on the evidence from our Scottish focus groups and roundtables.**

- The principle and practice of **'Nothing about us, without us, is for us'** should be used as a basis for implementing all of these recommendations. People in poverty should have a voice in all decisions that are made about how to tackle the Poverty Premium.
- The **Scottish Government** should develop a **plan for tackling the Poverty Premium** in partnership with local communities who are worst affected. This should include the establishment of a challenge fund to pilot new approaches to reducing the Poverty Premium at community level.
- The **UK Government's** Department for Business, Innovation and Skills should commit to developing a **strategy for substantially reducing the Poverty Premium** in relation to food, fuel and finance over the lifetime of the next Parliament (2015–20).
- **Businesses** which provide food, fuel or finance should **commit to reducing the Poverty Premium**, as part of their wider corporate social responsibility objectives.
- **Regulators** should adopt a **much more robust approach to tackling the Poverty Premium**, and address the failure of markets in food, energy and financial services to treat low-income consumers equitably.
- **Local authorities, social landlords and others** should explore the potential for **collective purchasing** of food and fuel and for **district heating systems** or **community energy co-operatives** in low-income neighbourhoods.
- The **partners** in 'Closing the Gap in Scotland' should pilot a **'community hub'** approach to delivering a range of affordable goods and services (food, fuel, finance, etc) within one or more local communities in Glasgow.





# Endnotes

Unless noted otherwise, all statistics quoted in this report refer to the whole of the UK rather than specifically to Scotland.

- a** *The UK Poverty Rip-Off: The Poverty Premium* (Save the Children, 2010)
- b** *Addressing the Poverty Premium: Approaches to regulation* by Donald Hirsch (Joseph Rowntree Foundation and Consumer Futures, 2013)
- c** *Understanding and Combating Financial Exclusion* by E Kempson and C Whyley (Joseph Rowntree Foundation, 1999); and *Financial Inclusion in the UK: Review of Policy and Practice* by L Mitton (Joseph Rowntree Foundation, 2008)
- d** *The UK Poverty Rip-Off: The Poverty Premium* (Save the Children, 2010)
- e** *Cost of Dying Survey* (Sun Life, 4 September 2013)
- f** *Addressing the Poverty Premium: Approaches to regulation* by Donald Hirsch (Joseph Rowntree Foundation and Consumer Futures, 2013)
- g** *Addressing the Poverty Premium: Approaches to regulation* by Donald Hirsch (Joseph Rowntree Foundation and Consumer Futures, 2013)
- h** *Below the Breadline: The relentless rise of food poverty in Britain* by Niall Cooper, Sarah Purcell and Ruth Jackson (Church Action on Poverty, Oxfam and the Trussell Trust, 2014)
- i** [www.housing.org.uk/get-involved/past-campaigns/ending-the-prepay-meter-rip-off](http://www.housing.org.uk/get-involved/past-campaigns/ending-the-prepay-meter-rip-off)
- j** <http://sarahteather.org.uk/en/article/2014/861399/sarah-takes-action-to-protect-private-renters>
- k** <http://liverpool.gov.uk/media/798196/selective-licensing-business-case.pdf>
- l** *Selective Licensing of Privately Rented Housing (England & Wales)* (House of Commons Library, February 2014): [www.parliament.uk/business/publications/research/briefing-papers/SNo4634/selective-licensing-of-private-landlords-england-wales](http://www.parliament.uk/business/publications/research/briefing-papers/SNo4634/selective-licensing-of-private-landlords-england-wales)
- m** *Making Ends Meet: The costs and implications of money management for low-income consumers* (Consumer Focus, 2011)
- n** *Making Ends Meet: The costs and implications of money management for low-income consumers* (Consumer Focus, 2011)
- o** *Stopping the Payday Loan Rip-off* by Niall Cooper and Sarah Purcell (Church Action on Poverty and the Centre for Responsible Credit, 2013)
- p** 'Credit to the community' by Hazel Southam in *The Tablet*, 31 July 2014
- q** *Financial implications for the death of a life partner* by Anne Corden (Economic and Social Research Council, 2012)

# About us



The gap between rich and poor in the UK is greater now than at any time in the past 50 years. The UK is one of the most unequal countries in the industrialised world.

With support from many national Christian denominations and agencies, Church Action on Poverty is campaigning for changes which would Close the Gap and build a more equal society. Happier. Healthier. Safer. Fairer.

[www.church-poverty.org.uk](http://www.church-poverty.org.uk)



The Iona Community is a dispersed Christian ecumenical community working for peace and social justice, rebuilding of community and the renewal of worship.

[iona.org.uk](http://iona.org.uk)



Faith in Community Scotland walks together with people of faith in support of our economically poorest communities. We are committed to working hand in hand with all who share the desire to challenge and overcome poverty and exclusion.

Faith in Community has supported this project primarily through two initiatives: Scotland's Poverty Truth Commission and the Transformation Team.

[www.faithincommunityscotland.org/transformation-team](http://www.faithincommunityscotland.org/transformation-team) or  
[www.faithincommunityscotland.org/poverty-truth-commission](http://www.faithincommunityscotland.org/poverty-truth-commission)



The Scottish Episcopal Church is an open, discussing and engaging church in Scotland and is a member of the world-wide Anglican Communion.

It is a diverse church which is widely respected for the quality of its ministry and worship and for the thoughtful dialogue which is characteristic of its life.

[www.scotland.anglican.org](http://www.scotland.anglican.org)



The vision of The Church of Scotland is to be a church which seeks to inspire the people of Scotland and beyond with the Good News of Jesus Christ through enthusiastic worshipping, witnessing, nurturing and serving communities.

[www.churchofscotland.org.uk](http://www.churchofscotland.org.uk)

Christian Aid is a Christian organisation that insists the world can and must be swiftly changed to one where everyone can live a full life, free from poverty. We provide urgent, practical and effective assistance where need is great, tackling the effects of poverty as well as its root causes.

[www.christianaid.org.uk](http://www.christianaid.org.uk)

