

Paying over the odds?

Real-life experiences
of the poverty premium



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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.

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Paying over the odds?

Real-life experiences of the poverty premium Executive summary

Families with children in Goldthorpe, South Yorkshire were invited to share their experiences of life on a low income.

This small qualitative project used a Sustainable Livelihoods approach to:

- Explore the impact of the 'poverty premium': *What do families end up paying more for? How much extra does it cost them? How does that affect their livelihood?*
- Understand the interaction between financial exclusion, income and expenditure: *Why do families end up paying more than they need to?*
- Make recommendations: *How might it be avoided?*

Listening to participants' own experiences and views, there are three main areas for change:

1. **Targeted action to tackle the impact of low incomes:** improving access to low-cost borrowing; encouraging, enabling and supporting people into work that pays enough; and maximising the effectiveness of benefits.
2. **Working with families to improve their resilience:** through affordable insurance; through financial support services and enhancing financial capability.
3. **Protecting the most vulnerable:** encouraging responsible lending; ensuring low-income customers get the best deal possible for gas and electricity by improving access to social tariffs and avoiding disproportionate penalties.

Key points

- The 'poverty premium' is a fact of life for most people on low incomes. Nearly everyone we spoke to through Goldthorpe Credit Union was paying more than they might need to through:
 - high-cost credit – using doorstep loans or rent-to-own agreements to pay for basic household items, cookers, fridge freezers or washing machines;
 - prepayment meters/cards for gas and electricity and/or mobile phones;
 - not being able to afford home contents insurance.
- In most cases, families felt that the more expensive options were their only option because they were not able to save to pay for items in cash, could not get access to affordable credit, or were not able or willing to pay by direct debit.
- Living on a low income made careful financial management a necessity, but often this was not enough. Families were able to provide very detailed descriptions of their weekly income and expenditure, often indicating very careful money management. All said there were regularly times when they were not able to make ends meet, and that an unexpected large bill, such as a washing machine breaking down, would be a significant problem for them. Many also struggled with the legacy of previous debts, often incurred when they were very young.
- Avoiding paying extra was possible for some families, some of the time, but not for all families, all of the time. Many families had developed strategies to avoid paying more than they had to, often through going without or borrowing from family. Having regular income from work and/or a bank account sometimes allowed families to protect themselves from the poverty premium, but not always or completely. All strategies were vulnerable – ill health or financial difficulties in the extended family, job loss, and problems with benefit payments were all likely to leave families at risk of incurring expensive debts.

Background

About this research

This research was conducted by Jane Perry as part of Church Action on Poverty's work for the European Year for Combating Poverty & Social Exclusion in the Yorkshire and Humber region. It used the Sustainable Livelihoods approach, which adopts a distinctive perspective on poverty by taking as its starting point not deprivation (what people *don't* have), but instead assets (what they *do* have). As a result, attention is focused on the strengths and capabilities of people living in poverty and the strategies they use to survive.

17 families with children from Goldthorpe, near Barnsley, shared their experiences of life on a low income during in-depth interviews conducted by a team of volunteer researchers. Those interviewed were carefully selected to represent a cross-section of members of the Goldthorpe branch of South Yorkshire Credit Union, and included those with and without jobs, couples and single parents, men and women, and those claiming different sorts of benefits.

The poverty premium – how the poor pay more

The 'poverty premium' refers to the higher prices which the poorest families often pay for basic necessities like gas, electricity and banking. The poverty premium was originally estimated by Save the Children to amount to around £1,000 a year. A 2010 update to this work estimates the overall figure to be more in the region of £1,170 a year, an increase of well above the rate of inflation.

It is an injustice that those with the least should pay most for essential goods and services. It is also likely that the poverty premium interacts with, and exacerbates, the vulnerability of low-income households. Households' low or unpredictable incomes are at the heart of their financial exclusion. However the existence of poverty premiums means that that exclusion itself may considerably reduce

the amount of disposable income available to families and how they manage their expenditure. In short, extra costs of poverty impact families' ability to 'get by' or improve their lives.

Participants' stories revealed their real-life experience of the poverty premium: that they were consistently paying more for credit and utilities and often excluded from being able to buy vehicle and home insurance.

"It feels shameful, but I mean you have got to do it; you have just got to do it to live. Sometimes it feels like it's they are taking advantage because they know you are in a situation ... it just feels as if you are exploited a bit because you have not got a great income, which is why you have to do these kind of things."

(Helen, a single woman with three children, one with a severe illness)

Reality of life on a low income

For most participants, borrowing at relatively high cost and/or using expensive prepayment meters was an unavoidable fact of life. Many were often short of money at the end of the week or month. As a result, families often found it impossible to save and so struggled to meet big or unexpected bills. This left them very vulnerable to high-cost lenders who actively marketed in the local area. Immediate needs for household items often presented a serious threat to families' livelihoods: life was so difficult without a functioning cooker or freezer that families felt they had no choice other than to pay the premium of a high-cost loan or rent-to-own.

"If something breaks down, there is no way I have got the money to just go and buy it, so it would make life even harder..."

(Jackie, a single woman, unable to work due to severe arthritis)

The root causes of vulnerability to the poverty premium were often significant life shocks, such as job loss or ill health, from which families had

People on low incomes pay the most for essential goods and services





not been able to recover. Such shocks presented a severe threat to families' livelihoods, and particularly if the family did not have substantial financial savings, were likely to result in debts and arrears. These problems were often exacerbated by the costs of frequent house moves, caused by lack of security of tenure and/or poor conditions in private rented properties.

Protecting against the poverty premium

All families use strategies to generate and manage their household income and expenditure. These strategies have implications, advantages and disadvantages which must be balanced to, as far as possible, achieve a desired level of wellbeing. When families are living close to the breadline it is particularly important which strategies are chosen and how well they are executed.

A poverty premium is incurred when their low income means families are left with little or no choice other than to opt for strategies which incur a high financial cost. However, not all families are affected by all types of poverty premium and some seek to avoid it all together. There are things which families can, and do, use to protect themselves against the poverty premium. These protective strategies included:

- Using more affordable credit union loans rather than high-cost lenders, and accessing financial advice offered by a credit union;
- Having regular paid employment which provided reliable income and other positive advantages;
- Borrowing from family and benefiting from other forms of family support;
- Having access to a mainstream bank account;

- Being 'good with money' – keeping a careful and close eye on what is spent and developing strategies and to cope, including 'doing without', particularly on spending for themselves.

"Without Phil's mum and dad, we would be lost, completely lost."

(Paula living with her partner and three children; both unable to work due to ill health)

Many of the protective strategies, however, were vulnerable. Ill health or financial difficulties in the extended family, job loss or problems with benefit payments would still leave families at risk of incurring expensive debts.

Conclusions

The poverty premium is one aspect of the complex and challenging lives of low-income families. Families included in this study demonstrated great resilience, often battling against the odds to hold family life together. Exclusion from mainstream financial services and lower-cost spending options exacerbate families' difficulties and make it difficult, if not impossible, for them to improve their lives. Any extra money paid in the form of a poverty premium is money which cannot be spent on other things.

Bitter past experience meant that some families had learned to avoid the worst of the poverty premium and were determined to do so in the future. Their stories demonstrate that avoiding paying extra can be possible, but also how difficult that can be for many low-income families to do this on their own. These real-life experiences suggest simple, concrete ways in which national and regional policy-makers, businesses and local organisations can act to make a difference – see the key recommendations overleaf.

The poverty premium makes it harder for parents to provide properly for their children

Key recommendations

- 1** **Listen to those who know best.** Families with direct experience of low income are best placed to tell their stories and so begin to reveal solutions to the challenges they face.

Tackle the impact of low incomes

- 2** **Improve access to low-cost credit.**
- Government, and other mainstream financial providers, should continue to support the development of the credit union sector and other not-for-profit financial services providers. Schemes, like the Growth Fund, should continue to be used to increase coverage and capacity of such lenders and to actively encourage sharing of knowledge and experience between organisations.
 - Such providers should offer innovative products which support people's coping strategies and which enable them to get better deals in the long run (eg for deposit for gas/electric bill meter rather than using prepayment).
- 3** **Reform the Social Fund.**
Ensure it is fit for purpose. Examine the potential for delivery to be conducted through credit unions, which would build Social Fund customers' financial capability and help to sustain credit unions.
- 4** **Encourage, enable and support people into permanent, sustainable employment, and ensure work pays.**
Companies and employers should pay the Living Wage. Government should provide enhanced tax credits for those who can only work limited hours because of caring for very young children, or sick/elderly relatives and friends.
- 5** **Maximise the effectiveness of benefit income.**
Find the new and best locations and situations for advisers to not only maximise the take up of unclaimed welfare benefits, but also provide active assistance on 'getting the best deal' for utilities, insurance and other financial services.

Improve resilience

- 6** **Promote affordable insurance.**
Affordable insurance packages, already offered by Registered Social Landlords, should be offered to private-rented tenants and promoted alongside housing benefit claims.
- 7** **Work with families to increase their financial skills and awareness.**
Improve access to services which help people to improve their financial capability.

Protect the vulnerable

- 8** **Encourage/enforce responsible lending by introducing further controls on high-cost credit.**
Place a legal cap on the total cost of credit. Introduce a tough 'responsible lending' code.
- 9** **Ensure low-income customers get the best deals for gas and electricity.**
- Protect low-income families from being systematically charged more than better-off customers, and ensure they are in the core group eligible to receive the new Warm Home Discount.
 - Publicise the discounts and best deals available to low-income families through an ongoing Ofgem awareness campaign and promotion alongside benefit claims.
 - Registered Social Landlords should promote the affordable and equitable supplier Ebico.
 - Ofgem should investigate and, if necessary, act to avoid 'emergency' credit on prepayment meters incurring disproportionate penalties.

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1 Introduction

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1.1 Background

This report explores the impact of the poverty premium on the lives and livelihoods of families living in South Yorkshire. In a study funded by the European Year for Combating Poverty and Social Exclusion as part of Church Action on Poverty's Listening Campaign, 17 families with children from Goldthorpe, near Barnsley, shared their experiences of life on a low income.

This small qualitative project used a Sustainable Livelihoods approach to:

- Explore the impact of the 'poverty premium': *What do families end up paying more for? How much extra does it cost them? How does that affect their livelihood?*
- Understand the interaction between financial exclusion, income and expenditure: *Why do families end up paying more than they need to?*
- Make recommendations: *How might it be avoided?*

Poverty premium

The 'poverty premium' refers to the higher prices which the poorest families often pay for basic necessities like gas, electricity and banking. The poverty premium was originally estimated by Save the Children to amount to around £1,000 a year¹. An update to this work estimates the overall figure to be more in the region of £1,289 a year, an increase of well above the rate of inflation².

Items which can incur a poverty premium include:

- Credit for consumer goods (eg cookers);
- Borrowing through doorstep lending or sub-prime credit cards;
- Quick money: cheque-cashing, pawnbrokers/ buy-back stores and cash machine charges;
- Prepayment energy meters for gas and electricity³;
- Home/contents and car insurance;

- Food costs – especially if lack of transport makes it difficult to get to large supermarkets.

Although it is impossible to estimate accurately how many families are incurring a poverty premium, the key statistics on poverty presented indicate that the numbers of those potentially at risk number millions, include working as well as non-working families, and are increasing (see box 1.1).

It is an injustice that those with the least should pay most for essential goods and services. It is also likely that the poverty premium interacts with, and exacerbates, the vulnerability of low-income households: households' low and/or unpredictable incomes are at the heart of their financial exclusion, but the poverty premium means that exclusion itself may considerably reduce the amount of disposable income available to families. In short, extra costs of poverty impact families' abilities to 'get by' or improve their lives.

Developing policies to tackle the poverty premium requires an in-depth understanding of how it operates at household level, in particular:

1. Why do families end up using more expensive options? How does the need to access certain services or buy goods interact with families' circumstances and livelihood strategies to

Box 1.1 Poverty in the UK⁴

- In 2008–09, 13½ million people in the UK were living in low-income households. This is around a fifth (22%) of the population and includes 3.9 million children.
- This 13½ million figure is an increase of 1½ million compared with four years previously, 2004–05.
- Among working-age adults on low income, more than half now live in families where someone is in paid work. More than half of all the children in low-income households have someone in their family doing paid work.
- A half of all lone parents are on low income, more than twice the rate for couples with children.
- Over the last decade, the poorest tenth of the population have, on average, seen a fall in their real incomes after deducting housing costs. This is in sharp contrast with the rest of the income distribution, which, on average, has seen substantial rises in their real incomes. The richest tenth of the population have seen much bigger proportional rises in their incomes than any other group.

make incurring a poverty premium likely or unavoidable?

2. What are the barriers which prevent using more cost-effective methods? How can these be tackled?
3. Where families manage to avoid paying extra, what is it about their family situation, assets, knowledge or capabilities which allows them to do this?

Sustainable Livelihoods approach

Sustainable Livelihoods is an innovative approach developed by organisations working to combat poverty in the global South⁵. It has recently been applied to, and developed in, the UK context in a number of projects by Church Action on Poverty and Oxfam working in Stockton-on-Tees, Cardiff, London and the Peak District⁶.

The Sustainable Livelihoods approach adopts a distinctive perspective on poverty by taking as its starting point not deprivation, but assets: the strengths and capabilities of people living in poverty and the strategies they use to 'get by'. Connections are made between detailed household level information – in this project collected through 17 interviews with low-income families – and the wider context. This enables crucial links to be drawn between people's lives, their local area and regional/national level policies which affect them. This information is then used to plan and prioritise possible actions to bring about positive change in people's lives⁷.

In contrast to much mainstream research on poverty, the Sustainable Livelihoods approach views people as active agents who make rational decisions and choices about their lives, and in response to social and economic change. At a practical level this means the approach is:

- People-centred: focusing on poor people's priorities, understanding the differences between groups of people and working with them in a way that is appropriate to their current livelihood strategies, social environment and ability to adapt;

- Responsive and participatory: listening and responding to the priorities identified by poor people themselves;
- Holistic: starting from people's lived experiences as a means of understanding the complex reality of people's livelihoods rather than taking a purely technical or sectoral approach;
- Dynamic: recognising the ever changing nature of families' personal circumstances and livelihood strategies, exploring how people perceive and react to risks and vulnerabilities which make up their everyday lives, and responding flexibly to people's changing situations.

A further key strength of the Sustainable Livelihoods approach is that it is multi-level and conducted in partnership: this project was developed with the full cooperation of staff at South Yorkshire Credit Union. This allowed their unique perspective to inform the research. Church Action on Poverty, alongside Save the Children, will be working at different levels across the private and public sectors to ensure that the findings really do help to reduce poverty, by ensuring that the micro-level reality presented in this report informs development of policy, and macro-level structures support people to build on their own strengths.

1.2 About this study

In-depth interviews

Church Action on Poverty worked with Goldthorpe branch of the South Yorkshire Credit Union to recruit families as participants in the study. Seven volunteer researchers from a wide range of backgrounds were recruited to carry out the project, working closely with Credit Union staff.

Over a three-week period in July 2010 members of the Credit Union were asked a range of questions to gauge their exposure to the poverty premium, such as whether they had used high-cost loans, hire-purchase or prepayment meters. The first significant finding was that nearly all of those spoken to had some experience of paying extra.

Some families with children were invited to attend an interview to speak further about their experiences⁸. Those interviewed were carefully

Box 1.2 Advantages and limitations of small-scale, qualitative research design

In-depth research can:

- Engage participants so they take an active part in the research process, with more authentic results
- Provide lots of detailed, rich information
- Tell stories and highlight people's real-life experiences
- Help to provide explanations
- Prompt people to think of solutions

It can't:

- Tell us how many people experience the poverty premium (because it is not possible to prove that those spoken to are statistically representative)
- Say for definite how much extra was being paid
- Prove anything – one piece of small-scale research may provide convincing explanations, it can't prove that they are true
- Tell anyone what they should do

selected to represent a cross-section of Credit Union members with children, including those with and without jobs, couples and single parents, men and women, and those claiming different sorts of benefits (Jobseekers' Allowance, Income Support, Employment Support Allowance). Participants interviewed ranged in age from young parents in their early twenties with several very young children, through to a mother in her mid-forties with only one late-teenage child remaining at home. A summary of the characteristics of those interviewed is included in Appendix A.

Interviews were carried out at the Goldthorpe branch office, usually at a time when the participant was visiting to collect their money. The semi-structured interview used 'participatory tools' to help researchers to encourage participants to actively contribute to the interview process. These pictorial research tools provided rich data about who lived in the household, who regularly went into and out of the house and where to/from, as well as how the household managed their money and any issues they faced. Interviewers used a checklist to make sure that all potential exposures to the poverty premium were covered during the interview (Copies of the checklist are available on request from Jane Perry – janeperry@live.co.uk). The interview ended with a recap of participants' personal and family strengths, as well as the particular challenges which they felt they faced in trying to improve their lives.

The advantages and limitations of this sort of research design are outlined in Box 1.2.

Key concepts and analytical tools

The structured analytic strategy provided by the Sustainable Livelihoods approach formed the basis of the design and conduct of this study. In particular, a number of key concepts and tools were used:

1. Mapping financial and non-financial assets

The Sustainable Livelihoods approach is built on an understanding of how people's behaviour and strategies are shaped by their access to five types of assets:

- Social – membership of groups, networks, family, friends.
- Financial – income, benefits, cash, savings, pensions, other assets (eg jewellery).
- Public – libraries, parks, public transport, other public amenities.
- Human – skills, knowledge, education, ability to work, health.
- Physical – homes, tools, transport, access to information.

Most financial inclusion strategies seek to tackle financial exclusion without dealing with other forms of exclusion or disadvantage. However, these non-financial factors have a significant impact on people's ability to achieve greater inclusion and build their financial assets⁹. This study used the

full range of assets as the starting point for discussing how families organised their lives, where they spent their money and why. The same range of assets was then used as an analytical tool, distinguishing what resources were available to people and how they used them to manage financially. This helped to reveal the full context in which the poverty premium is incurred, illuminating why people end up paying more as well as what they pay more for.

2. The livelihoods ladder

The 'livelihoods ladder' was developed through the Sustainable Livelihoods research in Thornaby as a way to understand transitions into and out of poverty¹⁰. To help identify how secure, long-term and effective people's strategies were for creating and preserving assets, the research categorised four stages: surviving, coping, adapting and accumulating. Together they form a 'livelihoods ladder' which people move up or down at different times in their lives, as displayed in Box 1.3.

As a person's assets increase they are better able to protect themselves from shocks and their vulnerabilities decrease. Consequently as a person builds their asset-base their position on the ladder moves up, but if they subsequently lose assets (for whatever reason) they risk falling back down the ladder.

Towards the end of the interviews for this study, participants were introduced to the livelihoods ladder and asked where they might place themselves upon it. Most participants placed themselves towards the bottom of the ladder – either 'surviving' or 'coping'. A few said they were either 'between coping and adapting' or 'adapting'. As might be expected given the nature of the sample, there were no families who felt they were 'accumulating', although one couple family with a parent in work did say they felt they were 'between adapting and accumulating'.

1.3 Goldthorpe and the Dearne Valley

It is crucial that the findings of this report are read and understood in light of the particular social and economic context of the local area.

Participants in this study came from Goldthorpe or the nearby villages of Thurnscoe and Bolton-Upon-Deane, within the Metropolitan Borough of Barnsley, in South Yorkshire, England. Thurnscoe has the largest population (around 9,100 people) but Goldthorpe, although smaller (6,700 people), remains the commercial centre for the area. Bolton is a similar size to Goldthorpe, around 6,800 people. The villages are part of an area now commonly referred to as the Dearne Valley¹¹ and are divided into two electoral wards, Dearne North and Dearne South. The Ward profiles from the Local Strategic Partnership, presented in Box 1.4 and Box 1.5 on the following pages, provide a good introduction to the characteristics of the area.

Box 1.3 Livelihoods ladder

Doing fine	Accumulating <i>Livelihood ✓</i> <i>Sustainable ✓</i>	<ul style="list-style-type: none"> Life is going well Can cope with most external shocks Range of choices, very flexible Works in formal economy Accumulating assets Home ownership
High risk of recurrent poverty	Adapting <i>Livelihood ✓</i> <i>Sustainable X</i>	<ul style="list-style-type: none"> Life isn't bad Vulnerable to shocks (reduced benefits access) More choice and flexibility but still limited Has moved into formal economy (probably low paid) Personal assets? Social assets undermined?
Risk-averse	Coping <i>Livelihood X</i> <i>Sustainable ✓</i>	<ul style="list-style-type: none"> Getting by – juggling – ‘rob Peter to pay Paul’ Can cope with minor shocks but not major ones Very limited choice and flexibility Total or partial reliance on benefits Informal economy Social assets very important – prevent descent to ‘Surviving’
At risk	Surviving <i>Livelihood X</i> <i>Sustainable X</i>	<ul style="list-style-type: none"> Life is a constant battle – only just surviving Very vulnerable to any external shocks No choice or flexibility Total reliance on benefits Likely in debt with high-interest credit Isolation – few social assets Reduced consumption (fuel, food, transport)

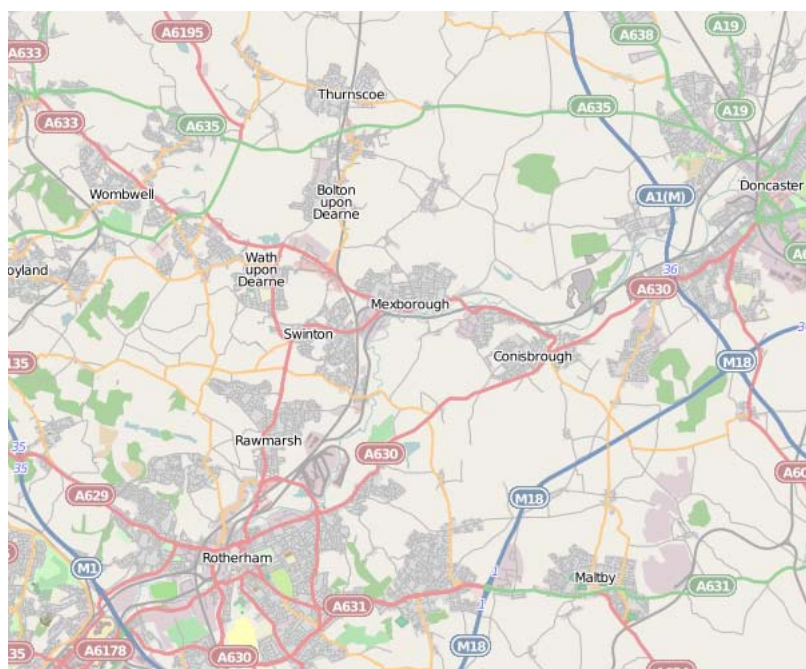
The Dearne Valley was a major coal mining area with much of the economic activity of the region either directly related to, or reliant on, the industry. As a result the area suffered greatly from the sudden decline of the deep coal mining industry in the 1980s. The collapse of the mining industry had a knock-on effect in many other local industries, leading to much local hardship. Many local people found themselves forced to move out of the area to find work, many of those that remain need to commute to larger towns and cities in the region to find work.

In 1995 the area became a regeneration area. Investment has mainly resulted in business parks being built on brownfield land once used by the mining industry. Jobs created have predominantly been in the service sector: many businesses are

contact centres, distribution hubs (for example the Next clothing chain) or, in the case of the large shopping centre based on the former Cortonwood Pit site, retail outlets. The most notable and largest of these business parks is at Manvers, home to amongst others Ventura, a large firm specialising in outsourcing of call centre functions, mentioned as a current, previous or future employer by several participants.

Transport links and local amenities

Road and rail links to the villages of the area were also designed mostly to ferry coal out of collieries and many of these were abandoned when the pits closed. Several of these former railways are now part of the Trans Pennine Trail footpath and cycle network between Penistone and Doncaster. Goldthorpe,



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org](http://www.openstreetmap.org)

Thurnscoe and Bolton have a train station with an hourly service to Sheffield and Leeds. Road links to Sheffield and Doncaster were improved by the Dearne Valley Parkway which links the A1(M) with the M1, running just to the south of Bolton. There are good local bus services connecting the villages with Barnsley and Doncaster.

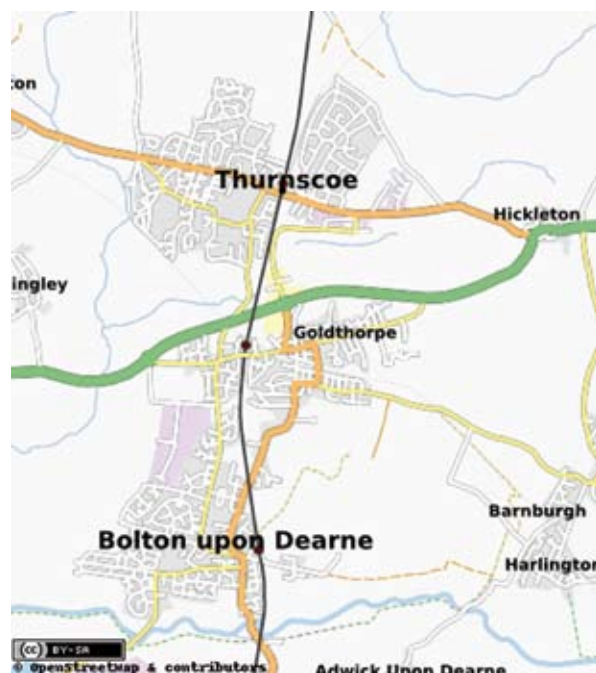
The main secondary school in the area is the Dearne High School- a specialist humanities college which caters for around 1,300 pupils aged 11–16 years. Goldthorpe has a library in a relatively new building, situated in the middle of the village.

Goldthorpe has a high street with a range of local shops and several small supermarkets. The Goldthorpe branch of the South Yorkshire Credit Union is located on the High Street. For further details about the history of the Credit Union, see Box 4.1 (page 27).

Key statistics

The area's previous reliance on the coal industry, which has now completely disappeared, lies behind the shocking nature of the area's key social and demographic statistics. This relative deprivation underlies a number of other key indicators, a summary of which is shown in Appendix B. In particular:

- High rates of worklessness due to disability: in 2005, around a fifth of adults of working age were claiming Incapacity Benefit and Severe Disablement Allowance;
- Low educational attainment: only around a third of pupils gaining five or more GCSEs at Grade C or above;
- High rates of ill health leading to reduced life expectancy: life expectancy in 2005 was 72 for males and 78 for females;
- High rates of crime, particularly in Thurnscoe and north Goldthorpe.



1.4 This report

This study is based on the lives and finances of the 17 participant families. Where possible their stories have been told using their own words. Names and some personal details have been changed to protect their anonymity.

This report is structured as follows:

- Chapter 2 describes participants' direct experiences of the poverty premium in the areas of high-cost credit, hire-purchase, utilities and insurance;
- Chapter 3 explores the underlying social and economic conditions which appear to make families particularly vulnerable to the poverty premium;
- Chapter 4 presents the various strategies which families use to protect themselves from having to pay extra;
- Chapter 5 sets out some conclusions and policy recommendations.

Box 1.4 Dearne South ward profile (source: One Barnsley¹³)

The Dearne lies in the easternmost part of Barnsley Borough and has three main communities – Thurnscoe, Goldthorpe and Bolton-on-Deane, divided into two wards. Dearne South contains the southern part of Goldthorpe and the whole of Bolton-on-Deane, plus Highgate. Dearne South was very much a traditional mining area with many men working at Goldthorpe, Barnburgh, Hickleton or Manvers collieries prior to their closure.

Goldthorpe is a small town of 6,700 people, the north of which lies in the Dearne North ward. South Goldthorpe has council estates at Hope Avenue / Washington Road, Probert Avenue and south of Barnburgh Lane. Unemployment rates on these estates are high. There is also some private terraced housing off Frederick Street and Lesley Road. Highgate is a small locality, similar to Goldthorpe with a mix of terraced and council housing but also extensive new housing. Highgate has most of the employment in the ward, at the Goldthorpe Industrial Estate.

Bolton-on-Deane is a mixed community of 6,800 people with few terraced houses and good quality council housing. There are modern private housing estates at Millrace Drive and Coniston Drive. Bolton has a large former British Coal housing estate around Ingsfield Lane which is now mainly owner-occupied, with some private renting. The southern part of this estate is in poor condition with many empty homes. The main council estate in Bolton is at Ringway, around the village centre at St Andrews Square. The historic centre of Bolton around the High Street has many older houses.

Dearne South has a relatively young population, with a high proportion of families having two or more children. The ward is one of the most deprived in the borough although it is primarily Goldthorpe which has the highest levels of poverty.



Box 1.5 Dearne North ward profile (source: One Barnsley¹²)

Dearne North has the largest population of any Barnsley ward and covers the northern part of the Dearne in the East of the borough. The ward includes Thurnscoe and north Goldthorpe. This was a mining area, once dominated by the local mine of Hickleton Colliery which employed 4,000 men in the 1930s. The loss of mining hit Thurnscoe very hard and it is the most deprived ward in the Borough, and one of the most deprived areas in England. Unemployment and child poverty are the highest of any Barnsley ward.

Thurnscoe has about 9,100 inhabitants and it is divided into two parts by the Sheffield-to-York railway line. West Thurnscoe is based on the original village on the High Street, now an area of private suburban housing. The suburban belt extends west to more modern housing at Billingley Drive, Southfield Lane and Rectory Lane which are the most affluent parts of the ward.



Thurnscoe north of Houghton Road is dominated by council estates, around Merrill Road, Lingamore Leys and School Street. This is a very deprived part of the ward with high unemployment and child poverty. Better-off council housing can be found on the western fringe of Thurnscoe, either side of Houghton Road. In the centre of Thurnscoe, between Houghton Road and High Street there is a mix of terraced and council housing.

Thurnscoe East is the part of Thurnscoe east of the railway and is mainly an area of former British Coal housing. The housing is a mixture of semis and terraced houses with many being rented from private landlords, housing associations and a local housing co-op. Conditions vary but are generally very poor with a high proportion of houses empty.

The other part of the ward is the northern half of Goldthorpe, a town of 6,000 people which includes the main commercial centre of the Dearne on Doncaster Road. Around the town centre are many streets of private terraced houses, both north and south of Doncaster Road. Most of the houses are small and many are in poor condition or empty, and this is one of the most deprived areas of private housing in the Borough. A few private semis and detached houses exist at Pickhills Avenue.

2 Poverty premium: lived experience

In this chapter

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“It is shocking to discover that families on a low income are still paying more for their basic goods and services than better off families”

Save the Children, *The UK Poverty Rip Off: Poverty Premium 2010*

Participants were invited to share the story of their lives: who lived in their house; who came and went and to where; where their money came from and where they spent it. Their stories revealed their real-life experience of the poverty premium: that they were consistently paying more for credit and utilities and often excluded from being able to buy home and car insurance¹⁴.

2.1 Prevalence of poverty premium

All but two of the families interviewed were currently incurring some form of poverty premium, counted across: no current use of bank current account; use of hire-purchase; use of high-cost lending (other than credit union loan); prepayment for gas or electricity. Only three couples and one lone parent had home insurance.

This cannot tell us anything about how many people in the general population experience the poverty premium. The qualitative (in-depth) research design used for this study means that it is not possible to use information gained from our sample of participants to draw statistical inferences about the prevalence of the poverty premium in the general population. Most importantly, experience of the poverty premium formed one of the selection criteria for inclusion in the study: families were selected to take part in the study because, in answers to initial screening questions, they indicated they had experience of one or more forms of poverty premium, either currently or in the recent past.

However, there is also good reason to think that participants interviewed may be less financially excluded than those with no contact with a credit union. Participants were contacted through the Credit Union, and all those interviewed had a Credit Union loan. Credit Union loans could still be at a relatively high interest rate compared to the low or interest-free rates available to wealthier individuals¹⁵. However, it does mean that all participants had at least some contact with a financial services organisation and, due to the nature of responsible lending offered by the Credit Union, some contact with financial advice.

The systematic way in which families were selected for the study does mean that participants were representative of the full range of different types of families with children using the Credit Union, and therefore indicative of the kinds of families who experience the poverty premium. As a result, we can be confident that participants were sharing in-depth experiences of the kinds of poverty premium which are known to occur more generally in the wider population, and so able to provide valuable insights into why the poverty premium occurs, what makes some families particularly vulnerable to it and what helps others to protect themselves.

With those caveats in mind, a number of associations can be observed:

- The two families who did not have current exposure to the poverty premium were both couple families where there was income from work.
- All families who experienced the poverty premium were exposed to more than one form – no functioning bank account and prepayment for utilities being the most common forms. This suggests that families who experience the poverty premium are likely to have more than one form of it.
- Families who placed themselves lower down the livelihoods ladder (surviving or coping) were also those who experienced the most types of poverty premium; those without current exposure to the poverty premium placed themselves higher on the ladder (adapting or above).

2.2 High-cost credit

Without a suitable credit history or sufficient proof of identity and address, families will be unable to access reasonably-priced credit from mainstream banks and building societies. Often the only option available is from commercial lenders, such as rent-to-buy, catalogues or doorstep lenders, that do not

require a credit history. These so called 'sub-prime' lenders charge high interest rates. The annual percentage rate charged by commercial lenders can vary from 50% to 1,000% compared with the less than 30% APR charged by mainstream lenders¹⁶. Concerns have also been raised about practices used by commercial lenders including a lack of transparency (particularly high additional 'service' charges) and a tendency to only offer high-cost goods rather than affordable options.

All those interviewed had access to loans from the Credit Union, but a substantial proportion of participants also revealed that they had other forms of high-interest credit¹⁷. For some these debts predated their involvement in the Credit Union, others had been taken out alongside credit union loans.

Doorstep lenders

Several respondents mentioned doorstep lenders marketing aggressively in their area: **"constantly [come to the door], and the leaflets, God, you could wallpaper the house with the leaflets they put through"** (Jackie).

Participants who didn't use doorstep lenders had fairly strong views about them, being clear that they had no time for them or 'sent them on their way'. However, seven participants said they had used doorstep loans, with several saying they had used more than one company. Of those, three were currently still paying back, four had used in the past and were now paid off.

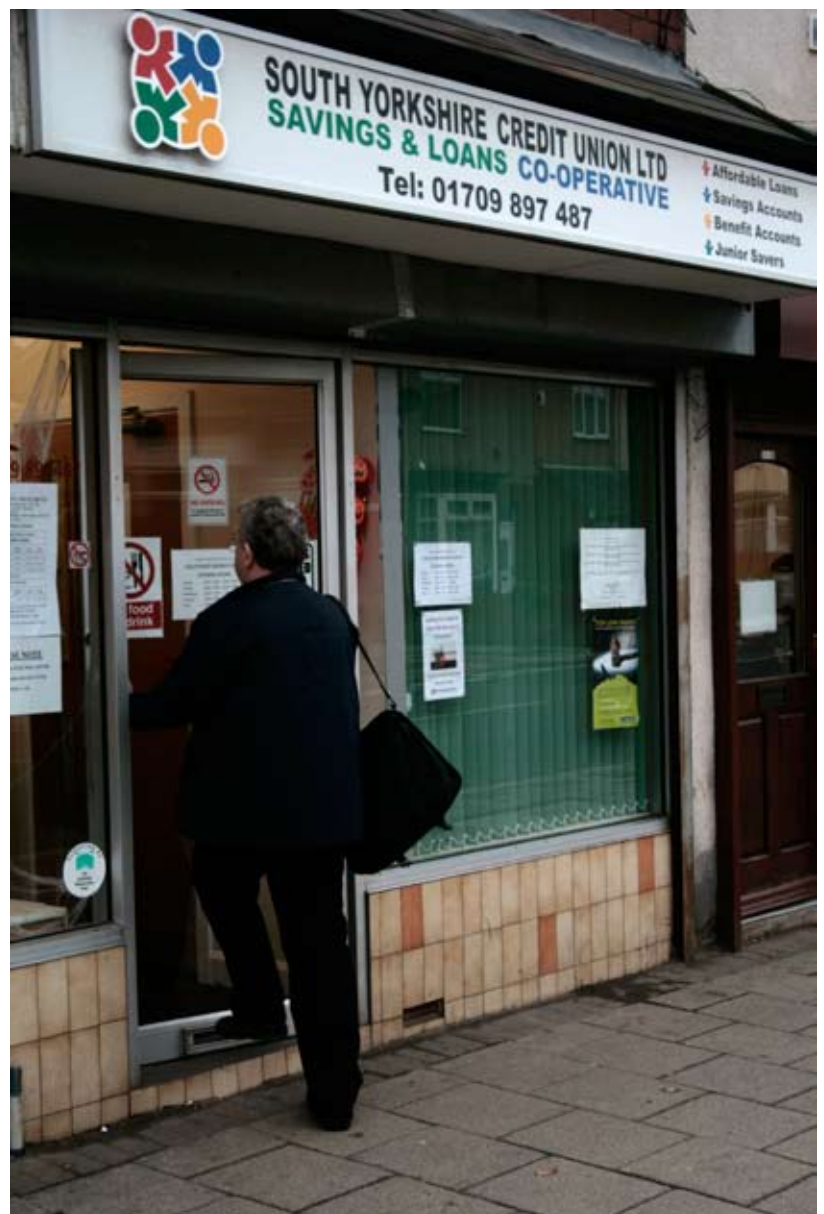
The main companies used were Provident, Mutual, Shop-a-Check, CLC Finance, Norton Finance, Greenwoods, and Loans for You¹⁸. One vulnerable lone parent admitted having used an unregistered 'loan shark', but had been warned against it by the Credit Union:

"I don't necessarily have them now but I have done in the past... it was only since I came to Credit Union that said 'get them all paid off... because this [loan-sharks] is against the law'. Now, they really, really, really are helpful, wherever they can put you straight on the narrow, they will." (Alex)

High-cost loans were mostly taken out for large consumer purchases, or other large bills, although one participant admitted having used loans to pay for day-to-day expenditure in the past:

"I mean when you don't get much money, you just seem to want to do things the best for your kids. That's how I got in debt. Obviously, needing food shopping, sometimes you end up in debt... I have been and got loans for such as food because I haven't had it, and because I pay that much out I have got outgoings and nothing incoming." (Frances)

For many of those currently using them, high-cost loans were seen as a necessary evil: when Paula and her partner were faced with a large bill to keep



their car running, they weren't able to borrow from the Credit Union and "couldn't face" asking their parents for yet more help. They got a loan from the Provident, even though they knew they would pay back over £1,500 in total for the £700 borrowed.

Paula wasn't alone in knowing the full extent of the additional interest she would pay. Kirsty borrowed £100, aware that she would pay back £178. Jackie described how she had taken a **"£50 loan, I pay £10 a week back, but you are paying for seven weeks, eight weeks"**.

Most loans were collected weekly by collectors who visited their home. Whilst many viewed doorstep lenders with suspicion, those who were using them described how friendly the collectors were. Kirsty described hers as "pretty good, actually a very nice man", Paula described how their collector had been understanding when they hadn't been able to pay and had apparently gone out of his way to sort problems out.

Most people had credit with high-interest lenders as well as the Credit Union

Rent-to-buy: Helen's story

Helen has recently moved to the area with her children, to be nearer to family and to escape a previous damaging relationship. She is aware that several purchases from BrightHouse have cost her far more than they would have done from if she had been able to buy them outright from another retailer: an Xbox (total cost about £585, only about £200 in shops); TV (total cost £1,800, same TV in Tesco or Asda £800); freezer (total cost £1,500, would have only been £800 from other retailer).

She says it feels:

"Shameful, but I mean you have got to do it; you have just got to do it to live. Sometimes it feels like its they are taking advantage because they know you are in a situation ... it just feels as if you are exploited a bit because you have not got a great income which is why you have to do these kind of things."

Concerns were raised about the responsibility of some lending:

"....you don't have to tell them nothing when they [door-to-door loan salesmen] come... you just have to have proof who you are and that you live there, and you can have they start you off with one and then they just they are so quick at piling it on you. Pay say six weeks and they know you can have another top-up if you want one, but not realising you have got interest off your old one plus the interest off your new one." (Jackie)

Typical weekly repayments varied between £5 or £10 in the best cases to well over £50 in the worst. For those with only one loan and low payments, repayments did not appear to pose too much of a problem, but in the worst cases debts were causing anxiety and depression. Particular problems appeared to arise when families took on too many of these sorts of debt or when a slip in repayments led to additional charges. Jackie quickly found herself threatened with court action when problems with her benefit payments led to difficulties meeting her weekly repayments:

"I explained to them, and they were alright at first. Then man from above from the office came to see me and he said 'Have you been having problems?', I went 'Yes, you know all about my problems, I have just started getting my benefits but I am not getting them regular, I don't know what day I am getting paid or anything like that,' I said, 'but tell [the representative] to call next week and if I have got something...' But she never called, then I have got another letter now saying ... they are quick at adding costs on all the time, charging you for a letter that comes out. It's wrong."

"But, yes, I have got [a doorstep loan] and I still owe this £80. I phoned them up, told her to call again next week because I get paid next Monday. If she doesn't come then, it's

just debts hanging round you all the time constantly, you can't get rid of them"

(Jackie)

'Rent-to-buy' consumer goods

Rent-to-buy was a fairly common source of credit, even among Credit Union members. Two participants had current hire-purchase deals and a further three said they had had such deals in the past.

Hire-purchase from companies was mostly used for expensive consumer goods such as TVs, games consoles, freezers and furniture. One participant also mentioned using hire-purchase to buy a car in the past. Companies commonly used for household goods were Buy-As-You-View and BrightHouse. Participants who had used, or were using hire-purchase appeared to be fully aware of the extra premium they were paying (see Helen's story in the box), although one described how she had been recommended to use hire-purchase as the 'least-worst' option available to her because it was at least a reputable company, rather than a loan shark.

Another participant suggested that, while she knew now about the extra cost, at the time she had bought the furniture she had been younger and much more naïve:

"I think it was because, I don't know, it just seemed an easy way to get... credit. Also I was young again then, I didn't realise what I was doing, when I was paying out the amount of interest I was paying back and when I look back that was phenomenal. It's not easy money, but easy... easy credit and you don't realise what you are doing until you have done it until after and you are still paying it years after down the line, but that's what it is, it's just easy credit that made me do it and I needed a settlee so bad, so bad."

(Olivia, mother of three)

Other families, however, strongly expressed a view that hire-purchase was something to be avoided:

"We did have Buy-As-You-View, like you know the television, but I sent it all back because I was sick to death of payments and interest rate"

(Brian)

"To tell you the truth I wouldn't use Buy as You View and BrightHouse because we know how people can really get in debt with them. I think they are going to be the worstest companies you can ever go with, so, so I mean I got a Buy as You view card they put through the post the other day and it just went straight in the bin, so I am learning."

(Frances)

"You see, BrightHouse, you have got your interest haven't you? Whatever [TV] set it is,

you pay double whack. It's not your own is it? they can knock at your door and take it."

(Mike)

Catalogues

A few participants used credit offered by catalogue sales companies. Most of those who used catalogues were buying clothes, although one family had bought camping equipment for a summer holiday. Several participants appeared to have relatively high borrowing with JD Williams (APR 39.9% variable rate¹⁹), often associated with problems keeping up repayments (current rate £12 for each missed payment reminder). Some were not able to get credit in their own right, but were using relatives' accounts:

"My auntie has got a catalogue so she lets me order everything out of there [laughter] I think that's where all my house stuffs come from out of the catalogue because I can pay weekly. I mean that's hard because we skint ourselves to do that, but it's things we need, it's something we can't live without sort of thing, you need it."

(Kirsty)

Credit cards, cash machines or 'quick money'

Not many participants interviewed had credit cards, mostly because of poor credit history. Several people were aware of the dangers of getting into debt, either because of their personal history of high debts on credit cards, or because they knew of friends or family who had.

Cash machine charges were not relevant to most families interviewed because they did not have high-street bank accounts, relying instead on withdrawing all money from the Credit Union or Post Office in cash. Those with accounts did not have any problems accessing cash for free.

No families mentioned using cheque-cashing, pawnbrokers or buy-back stores.

2.3 Utilities

Gas and electricity

A poverty premium can be incurred for gas and electricity in a number of ways:

- Method of payment – not being able or willing to pay electronically and so not able to access direct debit discounts or take advantage of cash-back deals offered to customers who pay by card;
- Type of contract: quarterly bills come at a higher per-unit cost than payment by monthly instalments; prepayment meters incur the highest per-unit costs, with companies justifying the extra in terms of the additional costs of servicing prepayment meters²⁰.

Utilities: Alex's story

Alex, a young single mother with serious health problems, vividly described the difficulties and anxiety caused by attempting to manage gas and electricity payments on a low-income:

"I'm private rented, so when I got [to current home] there were no prepay meters in there. That's what I'd been used to, so I found it difficult at first... I would just go round to the Post Office and pay what they say. Then they sent these payment cards and, when we sorted it all out, I got a payment card and pay so much a week, so it's just like a machine now."

Although she recognised the change was "just a different way of doing it", adjusting to the new way of thinking/working had clearly been difficult for her and the threat of an unpaid bill loomed very large:

"At the time I panicked because I thought 'oh no, there is no way to do it'. But now I know I am not going to get a bill at the end of it all."

However, now she has switched to a prepayment card, she says she would never go back to token/key meters:

"The last property I lived in ... it was awful ... it was worse than feeding a donkey in the garden, that gas machine. I was putting £30 and £40 in it some weeks and the charges if you don't put this in on, that time, it was just robbing me blind."

Then my mum said to me, when we moved here, you might find you might be better without this [meter]. Once you get into your routine and you cook and you will find that you will even out and your bills might even get a little bit lower. And they did, fantastic! I couldn't believe how could I be putting £40 in a week [in her previous property with a meter] yet I can manage on £10 a week here and it's fine. So I don't know how it worked... it has made me think now never, ever unless I had to, or I moved again and they were already there, I won't have prepayment meters again."

- Using the prepayment meter's 'emergency' credit facility or running into unintentional arrears whilst on a prepayment meter.

Nearly all participants paid for gas and electricity using a token/key meter or a prepayment card, but many were unclear exactly what sort of system they used. In particular there appeared to be confusion between old-fashioned meters which actually took tokens, 'pay-as-you-go' key meters and cards, and a card which let customers pay monthly in response to a quarterly bill. There appeared to be large variation in price paid for gas and electricity, from £5 or £6 per week to £25 per week. It was not clear if this related to payment method, family circumstances or supplier.

Few participants were paying by direct debit. Although cheaper cost was mentioned, the main reason given for using direct debit was the convenience of not needing to remember to make payments. Other participants with bank accounts had considered direct debit but rejected it, mostly due to concerns about being able to rely on money

being in the bank account when the direct debit was taken.

Some participants currently paying by prepayment methods said they would prefer a contract but had been refused either because they did not have a bank account for direct debits to be taken from or because of poor credit history: Paula said she paid £100 each for gas and electricity each month. She said she was aware that her gas alone could cost her £360 a year less if she was on a contract, but she was unable to find the £250 deposit the company required.

However for many participants, using a prepayment token/key meter was a positive choice. The various, very rational, reasons behind this included:

- Difficulty remembering to pay quarterly bills, or too easy to run up debts: “I got behind with my gas and I found that was that’s the easiest for me because I know that I haven’t got a big bill coming in and I can just pay on it when I can.” (Ellie)
- Nervous about direct debit being taken if money not in account: “[token/key meter] is better at the minute, because I know for a fact that if my lad needed something or we’d no food or you know and that money was in the bank I’d go and use it before do without, so I’d be getting charged again and again and again, whereas this if I don’t top my key or my card up then I get no electric or gas so it is easier for me, I know it’s dearer because you get charged for using them, but...” (Jackie)
- Prepayment card or token meter easier to understand and/or easier to see how much paying/budget; “I didn’t like having the card at first. Initially it was just a hassle [but] it is probably easier doing that than having to wait for a chunk of it to go off every month through direct debits so I am quite happy to do the card, that’s why I want to see my electric put on the card as well. So that obviously I know when it’s going down, you can see how much you are using and how much you are having to put in.” (Helen)

People prefer insurance firms with local offices so they can pay over the counter



- What they had always had and were used to: “It’s easier. We... manage to pay it all like that. It’s what we are used to I think, we have had it in every house we have lived in, we have always had that and it’s what we are used to.” (Ian and Sarah)

There was evidence of problems being encountered with token/key meters: some participants didn’t understand how the scheme worked or believed that their meter had not been working properly.

Several mentioned the extra charges incurred if the meter ‘went into the emergency’, that is if their money ran out and the meter went into arrears, incurring an extra charge when repaid:

“I try not to use my emergency because then you get charged for using your emergency... because it’s like a loan into there, you get £5 on your gas – if you run out they give you £5 emergency and on your electric it’s £7 but they charge you. If you go over... your credit runs out and you press your emergency button then you get charged and you have to pay it back as soon as. If I go on emergency, like when my benefits were stopped, if I go on emergency and I use that £7 on the electric I have then got to put £10 to get my electric back on, because you have got to cover your £7 plus the charge and then a bit of electric back on so I try not to use them.”

(Jackie)

Others mentioned problems with arrears being taken back off of the meter at a very high rate.

Some participants mentioned having shopped around for the best deal for gas and electricity. However others appeared not to think this was even an option for them, or to have fairly strong loyalty to one particular provider because “that’s who we’ve always been with”.

Water

Water bills were mostly deducted from benefits paid into the Credit Union account; a few participants said they paid by card. There was no evidence of a specific poverty premium regarding payment for water. However many of the participants had water arrears, often because of debts run up earlier in life which they had not been able to subsequently pay off. Paula had left home at 16 and got into debt with the water company very early on because “no one had ever told me that you needed to pay for water”. At their peak, her arrears had been £600. These were now reduced to £400 but repayment settlement takes £20 a week from her Income Support payment.

Others, like Olivia, had taken on family debts actually incurred by their partner:

“That’s actually arrears from my partner... when we split up... he never paid any water for the amount that he was at his property.

So we have got water arrears that we pay for him, well it's classed in his name but because I claim the benefits in my name, they can't take it straight out of my benefit, because it's in his name and not mine. So we pay that, that's £5 and then I pay my own, I have got this little booklet thing, I pay £5 [per week]. That's the only thing I haven't got arrears on myself."

(Olivia)

Phones

According to Save the Children research, in 2007 'pay-as-you-go' payment for mobile phones (often used by those with poor credit history or who prefer to pay in cash) was significantly higher than monthly contracts. However by 2010 this premium was no longer prevalent²¹.

All participants had a mobile phone. The majority were on 'pay-as-you-go', most topped up £5–10 at a time, but often only "when we have the money" (Ian). Several said that mobile phones were only for others, particularly family, to contact them on. Such families were often using arrangements where the extended family using the same mobile phone provider allowed them to talk to each other for free. (In some cases this also involved other family members paying the bills).

A handful of participants had mobile phone contracts, either on their own bank account or paid for by relatives. This was often because they recognised that having a contract got you a better deal, particularly if it included internet access.

Participants presented a mixed picture regarding landline telephones. Some did have a landline, again often as part of a wider package, with TV or internet. Some landlines were paid for by relatives, or by the participant but through their relatives' accounts, to enable them to access a cheaper deal. However, many did not have access to a landline at all, often because they had built up debts in the past. There was one clear example of a participant not being able to get a landline because of poor credit rating and/or a request for large deposit which they were unable to meet.

A couple of participants also mentioned problems with too many other people wanting to use their landlines, which in one case had led directly to a decision not to have one.

There was no mention of using call-boxes, probably because all participants had access to a mobile phone.

2.4 Insurance

Insurance should form a protective factor, allowing people to purchase cover which insures them against incurring an even higher cost if something goes wrong. Ideally this should particularly be the case in deprived areas, such as Goldthorpe or Thurnscoe, which typically have higher rates of crime than more affluent areas (see Appendix C for figures). However insurance itself can incur a poverty premium if low-income people are excluded from buying insurance through the high cost,

Insurance: Brian and Sally's story

Brian and his partner, Sally, are both actively looking for work. Brian had started training as a plasterer and is looking for a job which will enable him to complete his training and gain more experience, possibly with a view to becoming self-employed in the long term. Sally has been caring for their two preschool age children but now feels she is ready to be able to work, providing they can find appropriate childcare. She is looking for part-time retail work, but has no work experience in this sector.

The couple realise that transport is a challenge for them. If they are both to work they will need their own transport, to get to and from work and school/childcare. To help out, Sally's father has just bought her a car and paid for her to learn to drive. Brian and Sally have agreed that it would be better if she was the one with a driving licence:

"I can look wider to get a job out in the wider area and it would be so easy for Sally to take me; then her come back with the kids; for her to drop kids off at nursery, and then probably her get a part-time job as well where she can you know... [that way round is] a benefit, rather than me doing it, because if I was doing say 50 hours a week, she'd be stuck in the house, with the car stuck at work with me."

However, insurance is a big problem for them, at present the car is "sat on his drive, yes. Car insurance is a right rip-off though, £1,800 for the year. [Interviewer – so would you say that that was a barrier?] Car insurance? Yes. I'd say it was a rip-off."

Asked at the end of the interview what would help them improve their situation, Brian responds clearly, describing the impact of their situation and the temptation it brings:

"Cheaper car insurance... I can actually see now why a lot of people run cars without insurance because the fine you get is like £200 for getting caught with no car insurance. [Interviewer: £200 compared to £1,800 for insurance?] Yes, I mean I wouldn't ever do it, but I can see now why a lot of people do do it."

Insurance: Cara's story

Cara, a full-time carer looking after three children, one of whom has health problems, is supported by her husband who works full-time with a take-home pay of around £14,300 a year (£275 a week). One of the few participants who described their circumstances as between 'adapting' and 'accumulating', she felt that the improvements in their lifestyle needed to be protected, even if that came at a cost:

"We are insured up to the hilt love, you can't not be, you can't not be. We have got personal insurance, house insurance, car insurance, mortgage insurance, we took an additional loan to get the kitchen and bathroom done on the house, and we have got insurance on that one. We have got critical illness insurance and on the mortgage there is decreasing life insurance, critical illness and unemployment, so, believe it or not love, that's what takes your money.

Nearly all my direct debits are taken up with paying insurance because they are so expensive, but... dare you be without them? No is the answer, you just can't be."

Although she wasn't able to accurately remember all of the separate insurance costs, those she did list came to well over £100 per month – nearly 10% of her husband's pay – a cost they were prepared to pay for the added security it brought, even if the payments caused hardship in the short term:

"...insurance actually is what costs more than anything else. And then you have got things like, I mean daft things: I was thrown last week by my AA breakdown cover. I phoned them up and said, 'Look, I think I am going to have to cancel this'... they knocked it down from £108 to £75 which is great. And you can't afford to turn it down at that price, because to pay for a pick-up truck if you've broken down is too much. So you can't afford to, so you have got to take, but you have to pay for it as well, so you are playing catch-up for a few weeks then."

particularly if the cost is higher in deprived areas compared to affluent areas.

Very few participants had home or contents insurance. For those that did, it was sometimes at very high cost relative to their income (in one case £10 per month, another £20 per month). One participant, Cara, stood out from the other participants as the only one with several insurance policies. Her story is set out in the box.

Most participants however had no insurance, often explicitly stating that this was because of the high

cost. Some mentioned that they were aware they should have it, but just couldn't afford it. For those with a car, car insurance in particular was a large expense relative to their income. This was mentioned as a particular problem by a family who were considering getting a car in order to be able to go back to work (see Brian's story above).

Several participants noted a preference for insurance firms with local offices, especially if this meant that you could pay over the counter.

3 Reality of life on a low income

I said, "Pretend you've got no money."
But she just laughed and said, "Oh, you're so funny."
I said, "Yeah, well I don't see anyone else smiling in here."

(Pulp, 'Common People')

Most, if not all, participants seemed to take for granted that borrowing at relatively high interest rates and/or using prepayment meters was an unavoidable fact of life on a low income. Research by the Joseph Rowntree Foundation found that over-indebtedness was more typically due to inadequate income than to 'consumerism'²². This chapter explores some aspects of life on very low incomes which make families particularly prone to the poverty premium. This helps to point the way towards targeted policy responses which would help to tackle the problem.

3.1 Struggling to make ends meet

Nearly all those interviewed were benefit claimants. Those participants who were receiving benefits were able to make a good attempt to provide income figures, but the overall picture for their family income was often patchy and unclear. Evidence from Credit Union staff suggests that this is not uncommon: staff suggested that many people do not understand the letters sent to them by benefit agencies and are confused by the number of different sources of their benefits²³.

Two couple families had one partner in work, but these were both earning a relatively low income: the family who were prepared to give figures quoted take-home pay of £229 per week. Both appeared to qualify for Working Tax Credit.

Borrowing to live

Most participants mentioned that they were sometimes or often short of money at the end of the week or month. This appeared to be less of a problem for those with income from work, but even that did not completely protect them from running out of money.

In the worst case, Frances reported borrowing from a doorstep lender just to cover basic living costs, leading to a vicious spiral as borrowing immediately reduced her disposable income the next week:

"I mean when you don't get much money, you just want to do things the best for your kids, that's how I got in debt. And obviously

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needing food shopping sometimes you end up in debt, because I have been and got loans for such as food because I haven't had it, and because I pay that much out I have got outgoings and nothing incoming, then I end up having to get help off [the Credit Union]".

Many more covered the gap by borrowing informally from family, sometimes on a reciprocal arrangement and often to tide over an immediate gap until benefit pay day. Alex explained:

"I often tap my mum for £10 if I am short... I will say, 'I will see you straight when I get some glasses!' ... Mum is paid on a Thursday, I am paid on a Friday, so ... if I need a tub of butter or a carton of milk she will say, 'Have you got everything while tomorrow? Because I know you don't get paid while tomorrow?' and vice versa."

Danielle painted a similar picture:

Interviewer: "Do you ever find that you start to struggle towards the end of a week?"

"Yes that's why I end up lending [borrowing money] on a Saturday, because I am like struggling at the end. On a Monday I am totally ... but luckily my sister gets paid so she will lend me a fiver to get whatever I need, milk and bread and stuff."

But borrowing from family was not without drawbacks and sometimes caused tension. Frances described how borrowing from her mum was not a straightforward decision:

"I try my hardest to do what I can and try and be independent as much as I can, because my mam will have her own problems ... everybody has got their own problems, you don't want to keep going on their doorstep all the time, do you know what I mean?"

Making ends meet: Jackie's story

Jackie had to leave work because arthritis meant she was no longer able to carry out her warehouse duties. She describes the vulnerability of life on a very low benefit income by putting herself at the bottom of the livelihood's ladder:

"I'd have to put the bottom one – 'surviving' – because like I say if, touch wood, anything happened to us and we were in hospital or anything because I only get paid fortnightly and because I have only got bits coming in, there is no way I could pay a taxi or something to rush us to an hospital you know if we needed to.

Or if, like you say, something breaks down, there is no way I have got the money to just go and buy so it would make it even harder if my cooker did break down, the microwave doesn't do chips does it? [laughter] Do you know what I mean? I buy a sack of potatoes, they last me a couple of weeks for the chips, and that... It's constant, my money is all worked out for me before I even get it, you know, so I haven't got no excess for emergencies or..."

No chance to save

Being short of cash made it very difficult to be able to save. Some participants managed to set small sums aside to cover items such as day-trips out or school activities, but no participants reported any substantial savings. This meant they were vulnerable to income shocks (see below) and at particular risk of having to use expensive loans to meet large bills.

Families need sufficient disposable income to feel able to save, but also support and encouragement to do so. For example, some credit unions require saving as a prerequisite for a loan or, alternatively, some (like South Yorkshire Credit Union) have a post-loan savings requirement of £1 per week.

Not able to meet big bills

When asked what they would do if faced with a large bill, some participants were confident they could just about manage by juggling other income; many others said they would borrow from friends or family. For those who were not able to do either, immediate needs (such as not being able to cook or store food properly) represented a threat to families' livelihoods in the widest sense. Life was so much more difficult without a functioning cooker or freezer that they felt they had no choice other than to use high-cost borrowing.

Use of the Social Fund

There was some mention of Social Fund Budgeting or the Community Care Grant. However, several participants expressed reservations regarding the impact on benefit payments. These families said they were more likely to turn to the Credit Union, where the money was more quickly available and with less complex administration.

The Social Fund appeared to be offering an insufficient safety net for many families, often because of

the difficulty in claiming or the time a loan would take to come through. There was also a sense that the Credit Union or a rent-to-buy store was more approachable and, perhaps, socially acceptable. The Social Fund needs to be reformed to tackle these issues.

Implications of previous debts

The struggle to make ends meet on a weekly or monthly basis was compounded by the fact that all participants were paying off debts. Through the nature of the sample, all had loans with the Credit Union. Most also had borrowing elsewhere or arrears on household bills.

Paying back previous debts had big implications for families' disposable income, with those with high levels of previous debt most likely to struggle to meet their weekly or monthly cost of living. In the worst cases this left them feeling trapped and as if they cannot escape:

"I will put my food and stuff in my cupboards first, because I think my kids need it, I can't give what I haven't got and it's just that, it's just letters and stuff and phone calls that they are constantly pestering you and but if you haven't got it, how are you meant to give them it?" (Kirsty)

Previous debts also created difficulties with getting new credit. Olivia again:

"Because before, being naive and young and not paying it on time with certain things, that's what's messing me up now. That's what's stopping me, probably, being able to get certain credit that I'd want to, is because of my past when I was younger."

Interviewer: "You're dealing with the legacy of 10 or 15 years ago, aren't you?"

"Yes and it's awful because I would... I would religiously pay them on the dot [now] ... but it just doesn't work like that, does it?"

Some participants mentioned getting advice from the Credit Union, one mentioned the Citizen's Advice Bureau, and one Welfare Rights. South Yorkshire Credit Union does not recommend consolidation of debts, which they view as rarely being effective. Instead they support members to achieve 'full and final settlements' to buy people out of debts. This time-consuming process does save money and has the added advantage of repairing the individual's credit rating.

3.2 Vulnerability to severe shocks

Large or unexpected bills were not the only shocks to which these low-income families appeared to be particularly vulnerable. A number of participants had suffered significant life-shocks, from which they had not been able to sufficiently recover. These severe shocks were often the root cause of vulnerability to the poverty premium.

Job loss

Families where no one was in work were most vulnerable to the poverty premium. This was in part due to working families having higher and more secure incomes, but also because work appeared to be associated with more organised financial and family circumstances.

Reasons for not working fell roughly into one of four categories, typical of many benefit claimants: Some, like Brian, had lost previous jobs and were actively looking for work. Others, like Alex (see the box), had stopped work because of illness. Some mothers had stopped work to look after children, but many were looking forward to starting work again as soon as their children were old enough. Finally some, usually mothers, had responsibility for caring for sick children, partners or elderly relatives.

Ill health

For those who had been working, adapting to job loss was often particularly hard if it was due to illness. Extra costs of disability did appear to be largely met by Disability Living Allowance, but several families outlined how illness/disability had a big impact on spending decisions – either in terms of what they had to buy or how they had to buy it.

This evidence demonstrates how hard it can be to make ends meet if you are living on sickness or disability benefits. Any reductions, whether benefit cuts or resulting from the shift to the consumer prices index²⁴, would hit these families hard and put them in greater danger of incurring the poverty premium.

Problems with benefit payments

Several participants said their problems had been exacerbated by problems with benefit payments. Delays in benefit payments due to change in circumstances or error appeared to be a common cause of problem debts. Some participants had accessed a Crisis Loan from the Social Fund, which they appeared to still be repaying in instalments even when the benefit back-payment had been made. Even for those who had not experienced it, fear of problems which might be caused by irregular benefit payments stopped them using bank accounts or direct debits.

Families need to be able to rely on their benefit payments being correct and regular; a system which cannot ensure this is letting vulnerable families down at the time they need it most. Attempts to simplify and remove error from the benefit system should be welcomed, as should schemes to protect people from incurring debt as a result of late or incorrect benefit payments.

Job loss: Alex's story

Alex was diagnosed with a rare blood condition three years ago, her illness came on suddenly and meant that she was forced to give up work. She describes vividly how difficult she found the transition onto benefits:

“... Going onto benefits was difficult for me, because I came out of work from an illness. I worked at Ventura. I have worked full-time as a single mum ... and it's like – bump – straight out of work: ‘you are not going to come back to work, or if you do it will be on this basis...’

So you have to sit on these benefits and this is all the help that you are entitled to... so it was a big shock for me. And then to come down from my wages, which at the time I thought a pittance which was very difficult to manage on... It was just like. ‘I am never going to manage! How do I pay all these bills off? How do I do...?’

So I have had a lot of sorting out to do in the last two or three years in regards to health problems really, but it still comes back to money again.”

3.3 Lack of security of tenure

For those families who were renting in the private-rented sector, lack of security of tenure, coupled with poor housing conditions and irresponsible landlords, appeared to be a big problem, causing extra costs and detrimental levels of stress.

House moves appeared fairly common, particularly for those who were renting privately. Some moves were involuntary, for example when the property was sold to a new landlord, but more often moving seemed to be forced by poor conditions or because of increase in family size. Credit Union staff felt that lack of security of tenure exacerbated the problem of poor housing conditions as it meant that people often could not get repairs done on their property. Particularly where rents are paid by housing benefit, Government should act to strengthen the hand of tenants in being able to sort problems without having to move.

Moving house had a high financial cost, as participants had to find the money to cover the costs of the move as well as bonds and rent in advance. This often led to debt. Several participants mentioned that they had covered the cost of moving through Credit Union loans, other stories highlighted a particular problem getting together enough money for bond for private-rented properties. In an example provided by Credit Union staff the landlord had requested a bond of £700 and one month's rent (£500) in advance, giving a total immediate bill of £1,200, way above what the individual could afford even before the costs of moving and setting up home.

Problems obtaining bonds for private rented properties also highlight the need for affordable credit. South Yorkshire Credit Union does offer loans to cover bonds, moving costs, etc. These schemes should be strengthened. To be most effective,

lenders should ensure bond money is paid direct to the landlord. The lending organisation should also remain involved in issues of bond security and repayment, enabling them to offer support to those where repayment of bond is wrongly refused.

As well as offering loans, South Yorkshire Credit Union has schemes in place to help people manage the cost of moves: the Discount Card scheme for purchasing reduced-price goods from local retailers and other links with companies who can supply furniture at reasonable prices. Starter Pack schemes also aim to provide practical financial support for vulnerable people who are moving house²⁵. Such schemes should be supported and, where possible, rolled out more widely, alongside other advice/support for people moving house or setting up home for the first time (support with managing moving costs; reminders about utilities, how to set up accounts and manage bills, deal with companies etc; and help with dealing with potential problems).

3.4 Difficulty providing for children

Providing for their children loomed large as a preoccupation for all participants. Several mentioned going without themselves rather than seeing their kids go short. However this desire to protect children from the worst impact of life on low income also made them vulnerable to the temptation to take expensive loans.

Expectations

Several participants mentioned the maturity of their children, in understanding that money was short or not demanding expensive things, as a particular strength of their family. Others, such as Jackie, find things more difficult (see the box opposite).

Even for those with more understanding children, keeping up with expectations proved a strain. Olivia described how helping her children to be able to keep up with their friends, for example having enough money to go on a shopping trip, or to the cinema, meant she was often short of cash at the end of the week:

“...They want to go to the pictures, they have got their train fare, they want something to eat and they want to buy a little bit of something you know, so my daughter’s friends have got a lot, they are all wealthy her friends, their mams and dads are all working, this, that and the other. And I have got really good kids, I have been blessed with them and it’s hard to keep up with them, so like there is loads of times when I have to give my daughter... I have given her practically all my money that I have got left, just so she could keep up.”

Christmas

As for many families, Christmas is a particular strain. Several of those with debts with rent-to-buy companies had resorted to them in order to buy expensive presents for children at Christmas. Others had taken advantage of the Credit Union loan scheme:

“I have had a loan from the Credit Union for Christmas. It was only about £300 and something but it saved me getting in debts, so Credit Union does help quite a lot.”

Education costs

Many participants with relatively young children were often taking advantage of free school meals, although other requests for money for school sometimes posed a problem, particularly for those with older children at secondary school. For example Olivia described how her secondary school age children were eligible for free school meals but would not eat them, so that pressure to provide money for them to buy take-away food at lunchtime cost her a further £20 a week.



Families move house frequently, often because of poor housing conditions



Only one participant, Cara, had children at university, but – despite her husband having a good job – this obviously posed a significant challenge to their family finances. She described her relief when her eldest son decided to stay at home whilst he studied at university, rather than going away. However her determination to support him meant she was intending to take out two loans in the next year in order to cover fees for his Master's course.

Wanting to 'do the best by the kids'

The theme of 'wanting to do the best by the kids' ran strongly through the interviews. Importantly, many described their children as a key strength:

"My kids keep me going. If it wasn't for them I don't think I would have been here... There was bad points in my life, where I just didn't want to be here, then end up being bankrupt, then I ended up getting into this lot [bad debts] again... but if it wasn't for my kids, I don't think I would be bothered."

(Frances)

"They are fantastic. I have been so blessed with them. They are good as gold at school. They are really intelligent. I get people stopping me in the street and telling me it's lovely to hear a kid with their manners and everything. They are such a credit to me, they are unbelievable."

(Olivia)

But that asset was often tempered by very real concerns for their health and welfare:

"The kids, they keep me going. To have them there and seeing them being happy with simple things, do you know what I mean? As long as they are all alright, their health is alright, it doesn't get me down so much. It's worst for [youngest son], he is at home all the time. They told him he'd die... but because his health is not that bad, it could be a lot worse, it could be a lot worse."

(Helen)

Children: Jackie's story

Jackie's youngest son has behavioural difficulties and is blind in one eye as result of a fall. She fears that lack of money is at the root of many of his problems:

"He is angry all the time, you know... He is angry with me constantly, because he thinks I can just wave my magic wand... He thinks I have got a bottomless pocket... He don't realise [that money is genuinely short]."

Her inability to provide money when he wants it or to deal with his behaviour causes considerable problems for them as a family:

"...If he comes once, he can come 100 times a day, and expect me just to put my hand in my pocket. And I can't, and that's when he starts flipping then – showing me up in the street and screaming and shouting at me, calling me, you know. If I have got spare then he can have it, but he just doesn't understand you know, as they don't when they have been spoiled, but if I have got it he can, if I can't... then I have got a stressful day."

It also influenced her decision to close the bank account she had when she was working, meaning she is no longer able to pay for gas and electricity by direct debit:

"...Because I was getting into debt and owing the bank. That's why I shut my account down because some weeks I might be a penny short and I'd get charged you know £28, and I ended up owing the bank £400 so I had to close it down, that's why I came [to the Credit Union]..."

Interviewer: "And do you find that that's better for you, it's better to manage your money?"

"It is better, at the minute, because I know for a fact that if my lad needed something or we'd no food or you know and that money was in the bank I'd go and use it before do without. So I'd be getting charged again and again and again, whereas this if I don't top my key or my card up then I get no electric or gas so it is easier for me. I know it's dearer because you get charged for using them, but..."

Tellingly, when asked what they would do with a little more money to spend each week or month (see Section 5.4), the vast majority of answers focused on the children:

- Better quality, safer furniture for bedrooms
- Broadening their horizons – trips out, holidays, etc
- Relieving stress and pressure
- Having fun

For some parents, it appeared that this pressure to do the best for their kids simply became too much, particularly when they were presented with the temptation of 'easy' access to credit or the ability to acquire the things their children wanted through 'rent-to-buy'. Where children's happiness or welfare was at stake, sometimes, it appears, for some people, the extra cost of high-cost credit appeared to be well worth paying.

4 Protecting against the poverty premium

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“Just because our shoppers are less affluent, it doesn’t mean they are irresponsible.”

BrightHouse Chief Executive, Leo McKee²⁶

All families use various strategies to manage their household income and expenditure: they balance time spent caring for children and others with time spent earning; decide to spend on some things or not on others and, when faced with a large bill, make decisions about where the money to cover it will come from. Many financial strategies have implications, advantages and disadvantages which parents must balance, as well as they can, to achieve their desired level of wellbeing for their family. In the long term some strategies are more efficient and sustainable than others. When families are living close to the breadline which strategies are chosen and how well they are executed becomes particularly important. Some options may simply not be available, others have negative consequences.

A ‘poverty premium’ is incurred when families on low incomes are left with little or no apparent choice other than to use strategies which incur a higher cost than strategies available to higher-income families. However, not all families on low incomes are automatically affected by all types of poverty premium. Two families interviewed did not appear to be currently affected by the poverty premium. Equally, no families had all four types of poverty premium vulnerability simultaneously. This means there are things which families can, and do, use to protect themselves from poverty premium.

These protective strategies are the focus of this chapter, which in turn examines:

- Credit union loans
- Paid employment and work
- Family and other social support
- Access to bank facilities
- Money management skills

4.1 Credit union loans

Credit union loans were a lifeline for many participants. In particular, a significant number had used credit union loans to pay for ‘essential’ household appliances – fridges, freezers, cookers or washing machines:

“I ended up coming [to the Credit Union] because the oven wasn’t working and my washer, the back bearings went on my washer, so it was like a tank in the house but it couldn’t do the washing. So I got the loan for a cooker and washer... if I hadn’t have been to them I’d have still been without.”

(Jackie)

Danielle described how the quick service she received from the Credit Union had been essential in helping her to cope when her freezer broke down:

“I needed a freezer for the food so at first I didn’t know what to do. Basically you know I was going to do the Community Care Grant, from the Social, but then somebody told me that I could come here for an emergency one so I came like and within not even 20 minutes I had it... It was really helpful, yes, because I needed the freezer. It was warm... so there was freezer food to go in, so, yes, it was a big help.”

Other participants had borrowed money to cover deposits for private-rented properties and to cover the costs of moving or furnishing an empty property:

“One was for a washing machine, I bought a new cooker. I had my first loan when I first moved in, I didn’t have nothing, so I like bought household things with the first loan, then I had another loan because my fridge freezer had broken so then I bought a fridge freezer.”

(Gina)

Loan repayments varied between £18 and £30 per week.

The Credit Union was valued by many participants for the additional advice and support it offered and

Box 4.1 Credit unions in the UK and the Dearne Valley



Credit unions are financial cooperatives owned and controlled by their members. They offer savings and good value loans and are local, ethical and able to know and respond to what their members want. Many credit unions now offer a range of services including a current account, benefits direct, ISAs and Child Trust Funds.

Each credit union has a 'common bond' which determines who can join it. This determines who can become a member of the credit union. The common bond may be for people living or working in the same area, people working for the same employer, or people who belong to the same association, such as a church or trade union.

Interest rates on loans from credit unions vary between 1% a month on the reducing balance of the loan (an APR of 12.7%) and the legal maximum of 2% a month on the reducing balance (an APR of 26.8%). Many credit unions only offer the lower rates to those members who have already demonstrated consistent saving, and some offer a separate higher-rate package for those who have not got regular savings with the credit union (often those on benefits). Credit union loans come with no hidden charges and no penalties for repaying the loan early. Life insurance is built in, at no cost to the borrower. Most credit unions can lend for up to five years (unsecured) and up to 10 years (secured). Some credit unions can lend for up to 10 years (unsecured) and up to 25 years (secured).

The Credit Union in the Dearne Valley

The Dearne Valley area was the first in South Yorkshire to have a credit union. The current Goldthorpe branch of the South Yorkshire Credit Union Ltd traces its history back to the Thurnscoe Credit Union Ltd which was started in the 1980s.

In 2002 funding from the Coalfields Regeneration Trust enabled the Thurnscoe Credit Union to expand its common bond to the three electoral wards of Darfield, Dearne North and Dearne South. This allowed the Credit Union to become the **Little Dearne Credit Union Ltd** with three paid members of staff. Assistance from BMBCs

Barnsley Development Agency allowed the Credit Union to acquire premises on the Goldthorpe High Street.



In 2008 the **South Yorkshire Credit Union Ltd** was formed with merger of Barnsley Credit Union Ltd, Little Dearne Credit Union Ltd and Danum Credit Union Ltd. A wider common bond of anyone living or working in Barnsley, Doncaster or Rotherham removed some of the artificial political boundaries imposed on the credit unions previously. A successful operation of the Government's Growth Fund allowed for less restrictive practices and greater loan funding to be made available to a greater number of people. This has allowed for a rapid growth in Credit Union membership and in the number of loans issued and the development of working with partners to deliver infinite schemes and Financial Capability awareness across the whole of the Dearne Valley as well as Barnsley and Doncaster.

South Yorkshire Credit Union has around 15,000 members and is the third largest credit union in England. It operates from branches in Barnsley, Goldthorpe, Wombwell, Denaby, Doncaster and Stainforth. In the financial year to September 2010 it delivered 11,614 loans to a value of £4,501,253 to some of the most financially excluded. This represents a saving in extortionate credit of around £3,601,002, based on doorstep lending rates. The average loan provided is £380, with interest charged at 2% per month (25.36% APR). Loans are typically repaid over 52 weeks or less (so that they are not paying for last Christmas, this Christmas, etc).

If I hadn't have been to the credit

union I'd have still been without

for being a 'responsible lender'. Jackie described being called back in by the Credit Union because of queries regarding the monthly budget on her loan application: "[They] don't give you a one if your outgoing is more or doesn't leave you nothing from your income; they will not give you one knowing full well that you can't pay it back... They will make sure, they will go through what you have put down and if you've missed something off they will phone you and tell youso they make sure you put everything down, which I think is good."

Those with good relationships with the Credit Union did appear to be less vulnerable to the poverty premium, particularly through the good financial advice offered by staff. Members also benefited from wider products and services developed by the Credit Union. South Yorkshire Credit Union operates a number of innovative schemes to help members manage their finances. For example, the Goldthorpe branch of South Yorkshire Credit Union operates an innovative scheme, whereby money lent for domestic appliances is paid directly to local suppliers (based in the village) who offer good value for money and a discount to Credit Union members:

"Good to have because if you come in and tell them... they will send you up to the shop up here, the electrical shop, they will say pick what you need and then they send the money up and then just add it onto your loan. So it's really good... if you are in emergency and you need it, they do it for you."

(Jackie)

Some other schemes, like school uniform and Christmas savings, help members to spread heavy financial payments across the year; others help to directly cut the costs which members pay, for example a discount card scheme for local retailers or the Credit Union buying back and holding pawnbrokered goods.

4.2 Paid employment and work

For the two families who had regular paid employment, work appeared to be a significant factor in helping to avoid the poverty premium. The higher income meant they could buy more things outright, rather than relying on credit. However, incomes from work were not very much higher than those which would have been received on benefits. This suggests there may be a number of aspects to working, beyond purely additional income, which helped families to protect themselves from having to pay more:

- Income from work appeared to be reliable, giving a sense of accumulation, of things 'getting better'.
- As a result, perhaps, both working families had bank accounts and felt comfortable using direct-debit arrangements and electronic payments.

- This in turn enabled them to reduce their expenditure, for example, Norma used online supermarket shopping to help her keep food bills under control.

Paid employment therefore enabled families to sustain more complex but also more formally structured financial arrangements than non-working families. This is likely to be a combination of a higher income, more reliable income and skills and confidence gained through having a job.

It should be remembered, however, that even the working families were accessing relatively high-cost credit to cover relatively mundane expenses: Cara had taken a series of Credit Union loans to cover the cost of son's higher education; Norma had used credit from catalogues to cover camping equipment so the family could afford to go on holiday. This indicates that whilst work may be a key preventative factor, relatively low paid work can leave families short and still unable to access cheaper forms of credit.

When asked for their hopes for the future, nearly all non-working participants, particularly single parents, mentioned a desire to find work, often when their children were old enough:

"I was a carer but I had to leave when I had my first but I am going back because I miss working, I do love my job."

(Danielle)

"I have to wait while he goes to school the little one and then I can start working... I can't wait to back to work... I used to be a dinner lady... just something to get you out of the house and yes. It would be good."

(Ellie)

However, when talking about their immediate circumstances, many parents described the considerable difficulties which they felt made it difficult for them to reenter the labour market, particularly ill health (discussed in section 3.2); transport difficulties; and childcare, particularly where relatives were not available to have children on a regular basis. Several participants, like Cara²⁷, mentioned the impact that the demands of caring responsibilities for sick children would have:

"...to have a job, I will have to have an extremely understanding employer, that would let me say 'oh, by the way I can't come in for that time' and 'I can't come in for that time' – because he's got an appointment here and an appointment there... so that's really, that's a big thing just at the minute so."

The cost of work also loomed large. Several non-working participants raised real concerns about whether they would be any better off in work, once transport costs, clothing and food were taken into account. This often revealed fundamental misunderstandings, such as a firm belief that housing benefit would be stopped if they returned to work:

Gina: “How can we afford to get a job, pay your own rent, pay your own bills, you are worse off when you think about it... he only gets probably £150, £170 a week’s wage on any normal job he is going to get, especially without no qualifications. We get over that on Jobseekers and plus we have to pay our own rent when you work, [on Jobseekers’ Allowance] they pay it all for him... that’s what I mean, there is no point in him working.”

Interviewer: “...I think you’d probably get some housing benefit?”

Gina: “You do get some? I didn’t think you did. Only if you work up to 16 hours, isn’t it? Not if you have got a full-time job?”

To be of benefit in preventing a poverty premium then, work must be perceived to offer an adequate income. It also needs to be sustainable and dependable – moving in and out of low-paid work (together with the associated delays in processing benefit payments) is itself one of the key triggers to over-indebtedness²⁸.

4.3 Family and other social support

Family support is a strong asset for communities in and around Goldthorpe. All but one of the participants had always lived in the local area²⁹. All had extended family close by, meaning daily or weekly contact with parents, siblings and other close relatives. Some participants mentioned problems in the family – relatives they did not have contact with or with whom they difficult relationships – but all of these had other family members locally who they could rely on.

Borrowing money from family members was common. For some, family help was occasional: small amounts to cover immediate food shopping or larger one-off help such as buying children’s beds, help with driving lessons and buying a car or to manage in the aftermath of job loss. However, many mentioned how they would be completely lost without regular financial support from their family: “without Phil’s mum and dad we would be lost, completely lost” (Paula).

Financial support was often also provided indirectly, particularly through grandparents regularly having grandchildren to stay at weekends, providing meals, buying children’s clothes and toys, or taking them out on treats or on holiday. Some relatives also helped with access to financial services, allowing participants to use their catalogue accounts or their bank accounts to set up direct debits.

However, not all financial help from family members was easy or without limits. In particular, borrowing from family had implications for people’s pride and self-esteem. For example, Ian was clear that: “I don’t borrow no money off anybody. If we haven’t got it we do without. We make sure our bills are paid; we make sure we have got food for our



kids, and as long as we have got that we are happy, nothing else matters.” But later in the interview, his partner volunteered: “His mum would borrow us money if we needed to, but he just doesn’t like asking. We only ask in a situation what’s an emergency.”

Others had encountered reticence from family members, possibly because of recognition of the need to take responsibility for themselves: “Mum always said, ‘You have got yourself in this mess, you need to get yourself out of it.’” (Kirsty)

Beyond the purely financial, families provided essential support in a number of different ways:

- Help with childcare was very common, with several examples of (grand)parents providing childcare to give parents a break. Most mothers who discussed returning to work explicitly said they would rely on their own mother for childcare if they did so.
- For those without access to a car, lifts from parents or other family members to the supermarket or into the city were very common.

Families provide essential support for people on low incomes

- Support with hospital visits, for moral support but also practical help with transport, parking, etc.
- Job recommendations or hearing about vacant jobs via family members.

Family relationships often imply reciprocity, even if this is not direct. Some participants mentioned direct financial reciprocity: sometimes Mum would lend them money, other times she would need to borrow from them. Others mentioned providing practical support to family members, for example helping out when a sister had a new baby. However, more intensive caring responsibilities were rarer, perhaps because of the age of participants, or their own relatively vulnerable circumstances.

Reliance on close family was clearly essential in protecting some families from the poverty premium. This has two implications: first, those without close family, or whose family are themselves struggling to survive, will be at particular risk. Second, families who are lucky enough to have supportive and financially secure relatives may themselves be depending on something which is ultimately vulnerable. Close relatives experiencing severe illness, job loss or even dying would pose a significant threat to most families. For families which rely financially on those relatives, the impact could be catastrophic.

Friends

There were very few examples of financial borrowing from friends. Most participants said they didn't have friends who they felt able to borrow from. Several even explicitly mentioned that they did not want to be involved with people in their local area.

For others, although friends were less important than family, they did still provide valuable social support.

Other organisations

The main local organisation or service mentioned by participants was Turnaround, an addiction support and advice centre. One participant mentioned

valuing a toddler group provided by the local SureStart centre although her access was limited by having too many children. Another mentioned having had contact with the local Salvation Army in the past.

4.4 Access to banking facilities

Not having a bank account, or only having a 'basic' bank account, need not in itself be an additional cost to low-income families. Indeed, some families make the positive choice that it is easier to manage their finances without using a bank account. However, limited access to banking facilities; not being able to pay by direct debit or make payments with a debit card; or not having access to an interest-free overdraft to tide over problems with cash-flow, are all important underlying reasons why families can end up paying more for a whole range of goods and services.

Credit Union and Post Office accounts

All families had a Credit Union account into which at least one of their benefits or tax credit income was paid into. Although the South Yorkshire Credit Union cannot be seen as a bank, it does offer some basic banking facilities: all participants had benefits, tax credits or wages paid into the Credit Union electronically, and most were making use of the facility to deduct some payments (eg loan repayments, but also rent, water bills) at source. Many private-rented tenants receiving housing benefit had their benefit paid into and their rent paid out of their Credit Union account.

Credit unions cannot offer direct debits but do offer standing orders linked to the benefit cycle or monthly cycle. Credit unions cannot offer overdraft facilities but no charges are made for non-payment of standing orders. South Yorkshire Credit Union also offers a choice of two prepaid debit cards, one with direct charge facilities (similar to a direct debit but without some of the guarantees). However, take-up of cards is described as "very poor", with less than 200 issued and some of those never activated.

Credit Union staff suggested that members particularly valued the face-to-face service provided by the Credit Union and, in particular, an emphasis on treating members as people rather than simply customers.

Several participants also had benefits paid into Post Office card accounts, but did not appear to use banking facilities at the Post Office apart from withdrawing cash.

Current and savings accounts

Nearly all families interviewed, however, either did not have a current account with a high-street bank, or had accounts which were dormant. Only one, Cara, had a savings account, which she used for saving for specific purposes, but which was currently empty.

Credit unions offer basic bank accounts but cannot offer direct debits or overdrafts



Having a high-street bank account did appear to be related to how well families were doing: those families with active high-street bank accounts were those who were doing better, classing themselves as 'adapting' on the livelihoods ladder. None of the families who were only 'surviving' had high-street bank accounts. For those that did have them, bank accounts with full banking facilities did appear to be a positive benefit, helping participants to manage their money, either by using separate accounts for different things or using direct debits to make sure bills were paid on time.

For some, not having an active bank account was a result of the financial circumstances in which they found themselves. One participant, Frances, had a basic bank account with a high street bank, but said that her previous debts meant that the bank were not willing to upgrade her to an account offering overdraft, debit card or direct debits. For those who appeared to have wanted a full account, but had been effectively prevented from having one, the main underlying reasons were previous problems with overdrafts and/or bank charges. Jackie had closed her account after getting into serious debt: "I was getting into debt and owing the bank, that's why I shut my account down. Because some weeks I might be a penny short and I'd get charged you know £28, and I ended up owing the bank £400, so I had to close it down that's why I came [to the Credit Union], I just couldn't do it so."

This appeared to be a fairly common experience:

"I owe my bank, I have to pay my bank £25 a month, my bank account is shut but I had an overdraft. I had an overdraft and then got lots of charges on top of it."

(Kirsty)

However, others presented their decision not to have a bank account as a positive choice. Some preferred to handle budget in cash – to know how much money they had, where it was going and therefore to remain in control (see Section 4.5 below). For others, as discussed earlier, there was a suggestion that hesitancy about using bank accounts might be related to unreliability of benefit payments:

"What puts me off with the direct debits is that I have got a friend and he is always forever getting problems and that with direct debits where if his money hasn't gone in, his JSA, the direct debit gets took out then he has got a £30 bank charge... And it's like my partner said: 'You never rely on your JSA' ... because it isn't guaranteed to come in on the same day... Last week I got [JSA payment] on the Wednesday, so if I had had my JSA put into a bank and a direct debit took out on Tuesday, I would have been overdrawn."

(Brian)

Finally, it is possible that bank account use may be limited by lack of access to over-the-counter facilities. Only one major high-street bank, NatWest,

has a branch in Goldthorpe, and there are no banks or building societies in Thurnscoe or Bolton-Upon-Dearne. One participant mentioned that their bank, the Halifax, was closing its branch in Goldthorpe, leaving her with the choice of closing her account or travelling to Mexborough (three and a half miles away) to access counter services.

For many participants, vulnerability to the poverty premium, particularly for utility bills, was created by a very real fear that having a bank account or direct debits would inevitably lead to incurring disproportionate charges if the account then went overdrawn. A number of simple solutions could be found to combat this fear:

- automatic warnings, perhaps by text message, when an account was close to limit – including information on which payments had gone out and which were due out soon;
- a 'grace period', one or two weeks after notification of becoming overdrawn, giving customers time to rectify the situation before charges were applied;
- closer regulation of charges levied by banks and other lenders for letters, including schemes to prevent charges mounting if there is a problem (eg freezing account rather than letting charges mount up).

4.5 Money management: skills and systems

'Being good with money' – financial capability and decision-making

Most participants were very aware of, and careful with, money. They were able to say, with a fair degree of accuracy, how much income they had from each different source, when it was paid and where it was spent. 'Being good with money' was often listed as a strength, as was 'being organised' and 'good at planning'. Several stressed that these skills were learned through necessity and essential to survive:

"You have got to be, you have got to be. You can't not do so. I have been doing it long enough."

(Cara)

Couples who shared responsibility for money appeared to have stronger strategies, pointing to the strength of being able to sit down and talk over things together. However, the opposite was also true: problem debts and arrears were often attributed to one individual's bad decision, often the other partner, although occasionally to themselves.

Some participants had undoubtedly made better financial decisions than others; some were very aware of the extra costs of high-cost credit, others much less so. A lot of this was credited to age or experience. Several participants said they had been particularly naïve when they were younger.

Paula described how she had left home shortly after leaving school, completely unaware that, for example, water had to be paid for. As Olivia put it:

“I was young and naïve, you know, I mean, God, I left home when I was 16, I didn’t have a clue.”

Strategies – ‘pots’ and cash-only budgeting

Many families had systems of ‘pots’ of money for different things. Some used bank accounts to arrange this, but most were working in cash. These systems appeared to be adequate as long as they worked, but several participants said they had been left vulnerable when money had been taken from one ‘pot’ and not able to be replaced:

“I was borrowing off Peter to pay Paul, then back off Paul because I had to pay Peter again”.
(Laura)

Being able to be in control of money, often by physically putting it in different ‘pots’, was the main reason for preferring to operate in cash. Several participants said they feared the loss of immediacy and control which might come from handling payments electronically. Along with the danger of running up charges for being overdrawn, this was why many preferred using token/key meters for utilities. However, many were aware that cash-only strategies and not having a bank account meant they were unable to access cheaper direct debit deals. Several also described how it left them vulnerable to temptation, particularly when it involved large amounts.

Decisions about spending priorities

There was considerable evidence of participants managing their very tight budgets by just doing without, especially when it came to spending on themselves. Equally, there were other examples where (perhaps less wise) spending decisions had affected disposable income left to cover basic needs.

In Goldthorpe, there is good access to reasonably-priced local shops



Food shopping

Some families in deprived areas are thought to incur a poverty premium through living in so-called ‘food deserts’ with limited access to cheap supermarkets and so an over-reliance on expensive corner shops.

Evidence presented by families from Goldthorpe and the surrounding area suggests that fairly good access to reasonably-priced local shops largely protected them from a poverty premium in food costs: small supermarkets in Goldthorpe or Bolton, including Netto and Jack Fultons, were thought by participants to provide fairly good value, and several participants mentioned using them for that reason.

Many participants also stated that they deliberately accessed large supermarkets, a car journey away, because of the cheaper deals which they could get there. Most got to a larger supermarket once a week if they if they could, often relying on family or friends for lifts. Several mentioned local corner shops as being expensive, so that they only used them for small items or emergencies.

Most participants who discussed food shopping had deliberate strategies to save money. These included bulk-buying, taking advantage of special offers and buying freezer food in order to avoid fresh food going off. There was also good evidence of families having strategies which deliberately kept food bills down in order to save money for other things.



Using the internet to access the best deals

Most participants had internet access, a number through the government's free Home Access laptop/internet scheme³⁰ (which would last for a year). Others had internet access paid for by relatives, often as part of a Sky or mobile phone package. Those that did not have internet access at home commonly cited the cost of a computer and/or the internet connection as the main reason. Several also mentioned that they did not feel they had sufficient skill/knowledge to use the internet.

The low rate of bank account use, and so restricted access to electronic payment facilities, meant that few participants mentioned using the internet to shop. However there was evidence that, where internet access was available, internet shopping could help families save money. Norma, who was working full-time, said she used the internet for a monthly online supermarket shop:

"All the special offers are together so I tend to go through that first rather than having to check. And it's easier because obviously I haven't got kids with me and that, because if we go shopping we all go together and we normally always go when we have not had our tea as well, so we buy everything. So it's a lot easier [to do it online], I can just make a list and then I just buy what I need, so it works out cheaper online."

Other participants, like Danielle, mentioned that they were aware that internet shopping, for example using Ebay to buy things for a new baby, would save them money, but that this option was difficult, or not available to them, through not having a bank account. This was neatly summed up by Alex:

Interviewer: "Can I just ask about the internet, do you use it to shop at all?"

Alex: "No, because I don't have a bank card you see, so I can't shop. I can dream but I can't have no method of paying for it."

5 Conclusions and recommendations

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“It is great to see new ideas coming through to help the poorest in our society access credit and advice on how to avoid unsustainable levels of debt... As a government, we are fully committed to helping people make responsible choices for themselves and their families and that includes making the right choices when it comes to personal finance.”

Iain Duncan Smith on the release of new financial services provider, My Home Finance, September 2010³¹

The life stories shared by participants in this study illuminate the poverty premium as one small aspect of their complex and challenging lives. The difficult situations which many participants found themselves in are the combined result of local history (the closure of the coal mines and subsequent economic depression in the local area); wider structural social and economic factors (including readjustment of the UK economy away from low-skilled manual work, rising female employment; changing family patterns); and a range of individual factors and decisions. Some of these individual factors, like ill health, were largely or completely outside of the individual's control. Others, such as previous spending decisions, they may have been more responsible for in the past. Whatever the background to their relative disadvantage, exclusion from mainstream financial services and lower-cost spending options (whether involuntary or self-imposed) exacerbate families' difficulties. Any extra money paid in the form of a poverty premium is money which cannot be spent on other things.

It remains difficult to quantify the exact financial penalty incurred by any one family, particularly as families' circumstances are constantly changing.

Similarly, it is impossible, and inappropriate, to directly quantify the full impact of the poverty premium on families' livelihoods. However this study suggests that the extra paid by families interviewed is not inconsiderable, particularly relative to their already low incomes. It also demonstrates how the anxiety raised by high repayments and excessive charges combined with a feeling of exclusion or exploitation can quickly become demoralising, even immobilising.

That said, participants' stories also demonstrate the great resilience shown by many low-income families – in surviving against the odds, recovering from bankruptcy or severe mental illness, and managing to hold family life together. Many clearly indicated that, often because of bitter past experience, they had learned to avoid the worst of the poverty premium and were determined to do so in the future. In doing so, they demonstrate that it can be possible to avoid paying extra. But it is also difficult, particularly for young, inexperienced families facing many challenges from many different directions at once. However, participants' real life experiences can help here too – suggesting concrete ways in which national and regional policy-makers, businesses and local organisations can help to make this easier.

Key recommendation 1:

Listen to those who know best

Families with direct experience of low income are best placed to tell their stories and so begin to reveal solutions to the challenges they face. In particular:

- Evidence presented in this report of regular borrowing from family, need for Social Fund loans and the use of high-cost credit directly challenges the idea that benefit income provides an 'adequate' standard of living.
- Contrary to how they are often portrayed by the media, participants in this study were resilient and organised. Some admitted they had made mistakes in the past and that they were dealing with the consequences. Others were clearly vulnerable, particularly through physical and mental illness. All were trying to do the best for their children.
- Politicians and power-holders should celebrate the importance of immediate and extended family for helping low-income households to deal with adversity, and seek to protect those networks.

5.1 Tackling the impact of low incomes

The social and economic circumstances in the Dearne Valley mean that low incomes, whether in or out of work, will be a certainty for many of the population for the foreseeable future. If low income cannot easily be prevented, the question becomes whether it is possible to mitigate its worst effects and prevent it from costing families even more: how can we ensure people can afford to live, without having to pay extra?

Improve access to low-cost credit

This report has demonstrated the clear benefits which participants received from Credit Union membership, not only access to affordable loans but, crucially, accessible, timely and relevant support and financial advice. Potential demand for credit unions from low-income communities is high, but Ian Guest, Chief Executive of South Yorkshire Credit Union, suggests many credit unions struggle to develop appropriate products and services to serve the communities who need them most.

“Credit unions can deliver a great service if the focus is correct. At South Yorkshire Credit Union, we struggle to deal with demand for loans, due to the lack of savings and the inability of people to save due to reducing incomes. Many employee-based credit unions find it difficult to do what we do. They have the opposite problem to us, too many savings, no customers wanting loans. I have too many customers and no savings.”

In Ian’s opinion, South Yorkshire Credit Union customers have “benefited greatly” from the Government’s Growth Fund. The Growth Fund was set up in 2004 to increase the availability of affordable personal loans via third sector (not-for-profit) lenders such as credit unions and community development finance institutions. Specifically targeted at deprived areas like the Dearne Valley, the Growth Fund considerably enhanced South Yorkshire Credit Union’s capacity to offer loans – meaning it was able to make greater loan funding available to a greater number of people, without the requirement for pre-savings. This allowed rapid expansion in Credit Union membership and in the number of loans issued, with considerable positive outcomes in terms of the numbers repaying loans and beginning to save with the Credit Union. The Growth Fund also encouraged partnership working, enabling the Credit Union to offer financial capability awareness training across the Dearne Valley, Barnsley and Doncaster. A similar partnership with local housing associations and Barnsley Metropolitan council also meant that the Credit Union was able to put loans and money management arrangements in place to prevent evictions and allow people to stay in their homes.

These innovative schemes actively help members manage their finances. Schemes like these work well because they are developed in response to specific local concerns. Similarly, where access

Key recommendation 2:

Improve access to low-cost credit

- Government, and other mainstream financial providers, should continue to support the development of the credit union sector and other not-for-profit financial services providers. Schemes, like the Growth Fund, should continue to be used to increase coverage and capacity of such lenders and to actively encourage sharing of knowledge and experience between organisations.
- Such providers should offer innovative products which support people’s coping strategies and which enable them to get better deal in long run (eg for deposit for gas/electric bill meter rather than using prepayment).

Key recommendation 3:

Reform the Social Fund

- The Government should reform the Social Fund to ensure that it is fit for purpose. This should include examining the potential for Social Fund delivery to be conducted through credit unions – building Social Fund customers’ financial capability and helping to sustain credit unions.

to affordable household items (cookers, washing machines, etc) is difficult for those on low incomes, buyers’ co-operatives or other non-profit mechanisms could be developed to enhance access to affordable white goods.

Policy-makers should ensure that government spending, such as through the Growth Fund, continues to work to encourage and enable not-for-profit lenders to make low-cost credit available to low-income families. Innovative solutions such as those offered by South Yorkshire Credit Union, as well as new schemes like My Home Finance, should be developed across the UK. Through its funding mechanisms government should also continue to play a key role in ensuring knowledge and experience acquired by such schemes is shared with other similar organisations.

Reform the Social Fund

Some participants had loans from the Social Fund, but many mentioned problems getting access to loans and with the speed of response. Credit Union staff were also concerned about the implications that having savings through the Credit Union might have for Social Fund eligibility.

Encourage, enable and support people into permanent, sustainable employment, and ensure that work pays
Paid employment is a key factor in combating the poverty premium. The personal, human-capital assets gained from work, as well as reliable income, all play a big part in helping people to protect themselves against paying more. However although work may, for many families, be a necessary factor in helping them to improve their livelihoods, it is often not sufficient to prevent poverty. As recognised by the Government’s Universal Credit proposals³², people

must feel able to take work rather than being put off by benefit withdrawal. Beyond this, work must pay well enough to be worthwhile and enable people to avoid paying a poverty premium.

There is also a need to work with families where they are: work as a ladder out of poverty doesn't negate the need to ensure adequate livelihoods for those whose immediate circumstances mean they are not in work.

The concentration of this study on families with children unavoidably raises the issue of childcare and caring responsibilities. Many of the women in this study saw their main role as caring for children, particularly when their children were young. Some mentioned problems with accessing affordable, good-quality childcare, but for many others the responsibility to personally care for their children outweighed the economic imperative to work. Significantly, many women, particularly single mothers, explicitly mentioned a longer-term intention to return to work "when the children are old enough". What remains unclear is the extent to which their current role is influenced by their relative lack of qualifications and subsequent weakness in the labour market, or what impact this will have if and when they choose to reenter it. Adequate support for women who choose to define their main role as 'caring for children', whether or not they are working as well, remains a difficult political and social issue.

Maximise the effectiveness of benefits

Evidence presented here supports the Government's call for a benefits system which empowers and incentivises people, in the right way.

Late or wrong benefit payments can create a serious risk of indebtedness and make people particularly prone to high-cost borrowing. As a priority,

urgent attention needs to be focused on improving the accuracy and delivery of the benefits system and ensuring adequate mechanisms are in place to protect those who lose benefit income due to administrative delays and errors.

It also points to the need for welfare rights advice and benefits maximisation services, which would have been a considerable benefit to many of the people interviewed. These services must be well placed, where people can easily access and use them, strengthening the case for these to be delivered alongside other financial services.

5.2 Improving resilience

A second set of policy recommendations concern how to help people to build the financial and human capital to be able to protect themselves from the poverty premium. How can we help people to protect themselves from paying more than they have to?

Promote affordable insurance

There is a need for schemes which ensure that low-income families are able to pay a reasonable price for a reasonable level of insurance cover, especially for home/contents and car insurance. These affordable insurance policies must be transparent and easy to understand, and include ways of paying in cash and instalments without undue premiums. This may point to a need to encourage local as well as national suppliers.

Work with families to increase their financial skills and awareness

That those who are less financially aware are most vulnerable to the poverty premium points to the importance of financial education and ongoing support, particularly for younger families. Families who are consistently struggling to cover their monthly expenditure may need additional support with budgeting and/or to ensure they are maximising their potential income (through a correct benefit claim or moving to better-paid work, if possible).

One of the demonstrable benefits of the South Yorkshire Credit Union was that it offered participants a personal service, including a range of personal and financial support, as part of being a responsible lender. The result was members with increased financial capability and therefore increased ability to protect themselves.

Experience of the Goldthorpe branch also pinpointed that many people need particular assistance with establishing and maintaining 'proof-of-identity'. Training on the importance of identity documents (eg importance of electoral roll, bills in own name), as well as guidance on setting up and safely storing a pack of relevant identity documents, including help to secure official documents if necessary, could be of real benefit to many people.

The participants included in this study painted a mixed picture regarding internet access and ability to use

Key recommendation 4:

Encourage, enable and support people into permanent, sustainable employment, and ensure work pays:

- Companies and employers should pay the Living Wage, based on the Minimum Income Standard, to ensure work pays enough to keep people out of poverty.
- Through the tax credit system, Government should provide enhanced support for those for whom caring responsibilities, for very young children or sick/elderly relatives and friends, limit the hours they are available to work.

Key recommendation 5:

Maximise effectiveness of benefit income

- Government or local authorities should provide a 'challenge fund' to find the new and best locations and situations for advisers to not only maximise the take up of unclaimed welfare benefits but also provide active assistance on 'getting the best deal' for utilities etc.

a computer to access information. This indicated the success and benefits of the Government's Home Access computer scheme and other computer training courses, such as those offered at the Dearne Enterprise Centre in Goldthorpe. The need for such services still exists. As well as basic computing and internet skills, this could include short courses in using price-comparison sites.

A particular concern was raised regarding the failure of firms such as BrightHouse to stock a full range of lower-priced goods. This can mean that, as well as paying a premium for expensive credit, consumer choice is limited to a number of expensive products, which in turn push up repayments. As well as action to encourage retailers to stock a wider range of goods, this could be tackled through improved information about local suppliers (eg for white goods), including priced options. (This is covered under key recommendation 9 below).

5.3 Protecting the vulnerable

A final set of policy recommendations concerns those for whom a poverty premium appears inevitable. If the high-cost option is the only option, how can we ensure people are protected from the worst effects?

Encourage/enforce responsible lending

High-cost credit traps customers into cycles of debt. Extortionate credit means repayments well above what customers might otherwise need to pay, taking money which could otherwise be spent on food, heating or children's toys and clothes. Participants who had high-cost credit rarely just had one type of loan, indicating that high-cost borrowing was likely to be exacerbating their problems rather than solving them. Those participants who avoided high-cost credit were unanimous and vehement in their condemnation and strong aversion to 'being trapped in that again'.

Ensure low-income customers get the best deals for gas and electricity

Evidence presented in this report indicates considerable scope for energy providers to do more to help their poorest customers. Punitively high tariffs for prepayment meters eat into low-income customers' weekly budgets, exacerbated by additional charges for using 'emergency credit'. Where arrears have been incurred, up-front lump sums and enforced use of prepayment meters also discourage progress towards reducing debt to manageable levels³³.

Key recommendation 6:

Promote affordable insurance

- Government and the insurance industry should promote affordable insurance packages, similar to those already offered by Registered Social Landlords, to private-rented tenants. These could be offered through the National Landlords' Association and the Residential Landlords' Association, and promoted alongside housing benefit claims.

Key recommendation 7:

Work with families to increase their financial skills and awareness

- Government and local authorities should improve access to services which help people to improve their financial capability.
- In particular, they should support credit unions, other community groups and service-providers to provide an accessible mix of training courses and ongoing advice/support on managing money, dealing with 'authorities' and getting value for money.

Key recommendation 8:

Encourage and, where necessary, enforce responsible lending

Government should introduce further controls on high-cost credit:

- Legal cap on the total cost of credit, coupled with government responsibility to enforce the cap and also monitor its impact on availability of affordable credit.
- Sub-prime lenders to do more to ensure that reliable customers pay less. Ideas include: lower costs for reliable, lower 'risk' customers; ability for customers to build a credit record, reducing the risk for lenders and leading to lower costs for low-income consumers; a 'good customer' certificate, similar to insurance 'no claims' certificates, to ensure a cheaper rate next time whichever provider is used.
- Hire-purchase companies to supply a range of goods, including basic options, and offering information on comparative prices for buying equivalent basic options with cash (based on prices available in retailers in the local area).
- A tough 'responsible lending' code that has robust penalties for extortionate and irresponsible lenders, and encourages transparency and accessibility of information on cost, including giving direct personalised comparisons to other forms of credit.

Key recommendation 9: Ensure low-income customers get the best deals for gas and electricity

- Government should ensure all low-income families, especially those with children, are in the core group eligible to receive the new Warm Home Discount.
- Utility companies should review charging structures to ensure they are not systematically charging low-income families more than better-off customers.
- Publicise the discounts and best deals available to low-income families through an ongoing Ofgem awareness campaign and promotion alongside benefit claims.
- Registered Social Landlords should promote the affordable and equitable supplier Ebico.
- Ofgem should investigate and, if necessary, act to avoid 'emergency' credit on prepayment meters incurring disproportionate penalties.

5.4 Final word: What difference could it make?

The final word in this report should be given to the participants, whose personal, real-life stories form the basis of this report.

At the end of the interview, participants were told that, according to Save the Children research, the poverty premium could amount to over £1,000 per year for some families. They were then asked what difference an additional £1,000 a year would make to them. Their answers, emphasising the priority they would make of spending on kids and paying off bills/debts, but also the deep desire for some fairly unexceptional occasional treats, such as holidays and trips out, are reproduced in full below.

Box 5.1 What difference would an extra £1,000 make to your lives?

Alex

Lone mother; one child (secondary); not working (sick)

I would go and have a great big holiday with my mum and just take us all somewhere nice paid for, no worries, that's my feeling now I don't know, if I actually had it in my hand it might be a different story. If I could see it and it was mine, but speaking like, yes I would do something for us all I think because I don't know we usually do things like that, we are just a big happy family.

Brian

Couple; two children (both preschool); both looking for work

I'd probably spend it on my kids... I'd probably buy them a day out every month and probably a bit of bling.

Cara

Couple; two children (primary school and university); male working full-time, female not working (full-time mum)

I'd go on holiday. I will be honest, we could have that week's holiday everybody keeps talking about. And we probably wouldn't camp, that's guaranteed. We'd get further than Filey and Mablethorpe so. I don't think it's a big ask, one week so.

Danielle

Lone mother; five children (four preschool, one primary); not working (full-time mum)

I would get a lot of stuff. Cot – I need a new cot. Wardrobes – because my wardrobes are broken and it's struggling getting in them. A bed for my son – because my sons have got bunk beds, but I don't like them because they're like rock. They are safe for them at the minute, do you know what I mean, but I would like to get them a new one so it's... I am always struggling with getting it. I have got a settee that's got a rip in it so I need a new settee, but if I got a grand I would buy a lot of stuff for my kids.

Ellie

Lone mother; two children (preschool, primary); not working (full-time mum)

I'd spend it on the children – take them somewhere for the week or yes, just a family holiday.

Frances

Couple; two children (preschool, primary); both non-working (sick)

If I got extra money, a year or a week or whatever, I would be loads happier because it would help bring these bills down. It will help, once I have got my bills down, to go have more fun somewhere, take kids places, take kids on daytrips and things like that, do you know what I mean? It would make family life a lot better as well, because there would be less stress and pressures.

Gina

Couple; one child (primary); both non-working (unemployed/full-time mum)

What would it help me with? [Interviewer: Aye.] Living. [laughter] [Interviewer: Just so general bills and food?] Yes. [Interviewer: It would make things easier?] Yes, a lot easier. People say money isn't everything but it is, you need money to live.

Helen

Lone mother; three children (primary and secondary, one with severe health problems); non-working (full-time carer)

It would make a big difference because obviously the kids would benefit from it a little bit and we'd certainly go on a summer holiday that's for sure... It would go on the kids, definitely it would go on the kids.

Ian and Sarah

Couple; three children (primary and secondary – not all living with them); non-working (sick/pregnant)

Sarah: It would help us manage the week we are struggling. It would help us with kids' clothes. [Ian: Christmas presents.] Sarah: No it's not Christmas, we struggle, we find it hard to buy clothes for kids, to buy them clothes and shoes because they are that expensive we can't buy them what we want to buy them... And house like we need new things for the house if anything goes with the house, we haven't got the money to replace it. [Ian: Like if she has thrown a pot...] Stop being stupid... Like if our washer breaks or anything like that; we haven't got the money to replace it. We don't have money to replace household items and things like that. Like our little boy, he needs a new bed but we can't afford one for him because we haven't got the money. [Ian: That would help towards buying things for the kids and helping us with clothing and... our money helps us get by with day-to-day expenses but we haven't got any money for anything extra like to take the kids out, it would help us with money to take the kids out.] Take them to Clifton Park and to the zoo or stuff like that. [Ian: It would help us, it might help us buy a car and be able to take them out places.]

Jackie

Lone parent; one son living with her (16+), five older children elsewhere; not working (sick)

Oh £20 a week would be like winning the Lottery, you know... Oh things what I'd spend it on, clearing debt to start with and then it would be mine then, I wouldn't take more on you know because it's a constant battle trying to get out of debt but I think I'd like to treat myself for once. Have you seen anybody cut their own hair in the mirror, that's me, I can't afford hairdressers... Yes, like I say I'd like to treat myself for once you know. I mean, £1,000, God that would get me a magnificent computer couldn't it?

Kirsty

Couple; two children (primary); non-working (looking for work/full-time mum)

I'd just pay my bills; I'd just get on top with my bills.

Lana

Couple; three children (primary and secondary); both not working (sick/full-time mum)

My kids. [Interviewer: Right. And would it make a difference to your life?] It would yes, it would because obviously my children would get treated really well, they get treated well now like, but they'd get more than I can afford now, definitely.

Matt

Couple; four children (preschool and secondary); non-working (JSA/maternity)

Go on holiday... Somewhere nice and hot.

Norma

Couple; three children (primary and secondary); working/partner at home

It would probably go, if it was a regular £20 a week, probably go on my children initially. To make sure that they had got everything they needed, maybe a treat once a month for them, and then, once that had been done, then we'd probably look at just doing something with the kids and you know, because the pictures is a fortune, we couldn't go to the pictures on £20 a week, but so I'd probably just get in a DVD just doing something with the kids. Because if I get any spare money that's where it goes, it goes on the kids.

Olivia

Couple; four children (preschool, primary and secondary); not working (sick)

I would get a house... yes, it would probably be spent all my bills would get done, try and get rid of my debt and my kids, instead of having to wait until like until they have got massive holes in their shoes, to get them some, but I think I would try and clear a lot of my debt first of all so then... so I could start again and have a clean slate.

Paula

Couple; two children (primary); not working (sick)

Spend it on the kids; pay my partner's parents back, because we owe them, big time.

if I get any spare money

it goes on the kids

£20 a week would be

like winning the Lottery

Appendix A:

Sample characteristics

Table 1: Selection characteristics

	Couple	Lone parent	Total
Work status			
One parent working	2	0	2
No parent working	9	6	15
Benefits and tax credits			
Jobseekers' Allowance	4	1	5
Employment Support Allowance	1	1	2
Income Support	4	4	8
Gender			
Female	8	6	14
Male	2	-	2
Joint Interview	1	-	1
Total	11	6	17

Table 2: Participants' view of their position on the Sustainable Livelihoods Ladder

	Couple	Lone parent	Total
'Accumulating'	0	0	0
Between 'Adapting' and 'Accumulating'	1	0	1
'Adapting'	2	0	2
Between 'Coping' and 'Adapting'	2	1	3
'Coping'	3	1	4
Between 'Surviving' and 'Coping'			
'Surviving'	3	4	7
Total	11	6	17

Table 3: Exposure to the poverty premium

	Couple	Lone Parent	Total
Access to banking facilities			
No high-street bank account	6	4	10
Dormant bank account	2	1	3
High Street bank account	3	1	4
High-cost lending			
Doorstep loan (current)	2	1	3
Doorstep loan (previous)	2	3	5
Hire-purchase (current)	0	2	2
Hire-purchase (previous)	4	0	4
Prepayment for gas/electricity	9	6	15
Home/contents insurance	3	1	4

Appendix B: Dearne North/South local area data

	Dearne North	Dearne South	Barnsley
Education³⁴			
Pupils achieving five or more A*-C GCSEs, 2005	36.5%	35.4%	45.9%
Health³⁵			
Male life expectancy, 1999-2003	72.2	72.3	74.4
Female life expectancy, 1999-2003	77.8	78.8	79.3
Crime³⁶			
Burglaries in a dwelling per 1,000 households, 2005-06	25.4	11.2	14.4
Theft of and from a motor vehicle per 1,000 population, 2005-06	21.7	19.4	19.2
Criminal damage per 1,000 population, 2005-06	66.1	33.6	29.3
Worklessness and benefit claim³⁷			
18-59-year-olds claiming Jobseekers' Allowance, 2005	3.5%	2.4%	2.7%
16-64-year-olds claiming Incapacity Benefit and Severe Disability Allowance, 2005	21.9%	18.0%	12.2%
16-64-year-olds claiming Income Support, 2005	13.5%	10.1%	8.3%
Residents claiming Disability Living Allowance, 2005	13.2%	12.1%	8.4%

Endnotes

- ¹ *The Poverty Premium: How poor households pay more for essential goods and services* (Save the Children and Family Welfare Association, 2007)
- ² *The UK Poverty Rip Off: Poverty Premium 2010* (Save the Children, forthcoming)
- ³ In March 2010 all of the six large energy companies agreed to charge prepayment meter customers the same rate as customers who pay quarterly. However, poorer customers without bank accounts will still be paying higher rates than those who have bank accounts and can pay by direct debit.
Original Save the Children research in 2007 included use of pay-as-you-go mobile phones rather than pay-monthly mobiles or landlines as a poverty premium, but by 2008 PAYG customers were paying 36% less on average per voice minute than contract customers (see *The UK Poverty Rip Off: Poverty Premium 2010*, forthcoming from Save the Children).
- ⁴ Source: The Poverty Site, www.poverty.org.uk
- ⁵ The Sustainable Livelihoods approach was adopted by the UK Department For International Development in the late 1990s, building on work by IDS, IISD, Oxfam and others. More information can be found at www.eldis.org/go/topics/dossiers/livelihoods-connect
- ⁶ Building Sustainable Livelihoods projects in Thornaby and Stockton-on-Tees – *When Ends Don't Meet* (Church Action on Poverty, 2006); exploring the livelihood strategies of people in poverty in London – *Voices for a Change* (2008); making ends meet in Splotlands and Riverside, Cardiff – *Making Ends Meet* (2008); exploring small farmers' livelihood strategies in the Peak District – *Farming Lives* (2009)
- ⁷ More information on the approach can be found in the *Sustainable Livelihoods Handbook* by May et al (Church Action on Poverty and Oxfam, 2009)
- ⁸ Interviews typically lasted between 45 minutes and an hour; Church Action on Poverty made a gift of £15 into participants' Credit Union accounts as a 'thankyou' for taking part.
- ⁹ *A Sustainable Livelihoods approach to tackling poverty and financial exclusion* (Friends Provident Foundation, 2010).
- ¹⁰ *When ends don't meet* by Orr, Brown, Smith, May, & Waters (Church Action on Poverty, 2006)
- ¹¹ The Dearne Valley is an area of South Yorkshire along the River Dearne, encompassing the towns of Wombwell, Wath-upon-Deane, Swinton, Conisbrough and Mexborough, the large villages of Ardsley, Bolton on Dearne, Goldthorpe, Thurnscoe, Darfield, Stairfoot and Brampton Bierlow, and many other smaller villages and hamlets.
- ¹² The official site of the Barnsley Local Strategic Partnership: www.onebarnsley.com/pdf/map/dearne_north_ward.pdf
- ¹³ www.onebarnsley.com/pdf/map/dearne_south_ward.pdf
- ¹⁴ Although food was included in the list of poverty premiums which interviewers explored with participants, there was very little evidence of a poverty premium in food, mostly because of low-cost supermarkets located within their villages. See Section 4.5 for further discussion of how participants protected themselves from this premium.
- ¹⁵ Interest rates on loans from credit unions vary between 1% a month on the reducing balance of the loan (an APR of 12.7%) and the legal maximum of 2% a month on the reducing balance (an APR of 26.8%) – see Section 4.1 for full details.
- ¹⁶ *The UK Poverty Rip Off: Poverty Premium 2010* (Save the Children, forthcoming)
- ¹⁷ Access to loans through the Credit Union means that use of other forms of high-interest credit may be lower among Credit Union members than among the equivalent low-income population not using credit unions; however, it is not possible to test this using this study.
- ¹⁸ Payday loans or other forms of cheque-cashing or money advance were less common, probably because few of the participants were in work (and those who were working were generally less likely to be using credit).
- ¹⁹ www.jdwilliams.co.uk/shop/policies?decoration=true&finalTarget=policies_payment
- ²⁰ In March 2006 the six largest energy companies agreed to charge prepayment meter customers the same rate as customers who pay quarterly. However, those paying quarterly or through a prepayment meter are still paying higher rates than those who pay by direct debit.
- ²¹ *The UK Poverty Rip Off: Poverty Premium 2010* (Save the Children, forthcoming)
- ²² *Credit and debt in low-income families* by Dearden et al (Joseph Rowntree Foundation, 2010)
- ²³ This finding is supported by wider research evidence regarding problems caused by the complexity of the benefit system, see for

example a 2005 National Audit report (NAO, 2005) and the House of Commons' Public Accounts Committee report (Committee of Public Accounts, 2006). That benefit complexity is a barrier to claiming and a barrier to work is now recognised in the Government's *21st Century Welfare* consultation (DWP, 2010).

²⁴ www.guardian.co.uk/business/2010/oct/12/price-index-change-hits-pensions-benefits

²⁵ www.frn.org.uk/starter_packs_association.asp

²⁶ Interviewed by *Retail Gazette* on Friday 12 November 2010: <http://retailgazette.co.uk/articles/22120-interview-brighthouse-ceo-leo-mckee>

²⁷ Although Cara's husband was working, Cara herself was currently not working.

²⁸ *Credit and debt in low-income families* by Dearden et al (Joseph Rowntree Foundation, 2010)

²⁹ Helen was the only participant who originally came from outside the area and who did not have immediate family living nearby. However, she had moved to the area from further afield to be close to the extended family she did have, who lived in Barnsley.

³⁰ From January 2010, families with children in years 3–9 (approximately aged 7–14), who are entitled to free school meals, were able to apply for a grant to buy a computer and broadband connection from an approved supplier, after meeting strict eligibility criteria. (www.dcsf.gov.uk/pns/DisplayPN.cgi?pn_id=2010_0011)

³¹ Quoted by National Housing Federation (www.housing.org.uk/default.aspx?tabid=212&mid=828&ctl=Details&ArticleID=3338)

³² Government White Paper (DWP, 11 November 2010)

³³ *Credit and debt in low-income families* by Dearden et al (Joseph Rowntree Foundation, 2010)

³⁴ Source: Barnsley LEA – quoted in ONE Barnsley Ward Data

³⁵ Source: Barnsley PCT – quoted in ONE Barnsley Ward Data

³⁶ Source: South Yorkshire Police – quoted in ONE Barnsley Ward Data

³⁷ Source: DWP – quoted in ONE Barnsley Ward Data



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