

# THE COST OF LIVING AND LEVELLING UP

Why the poverty  
premium matters  
for local economies



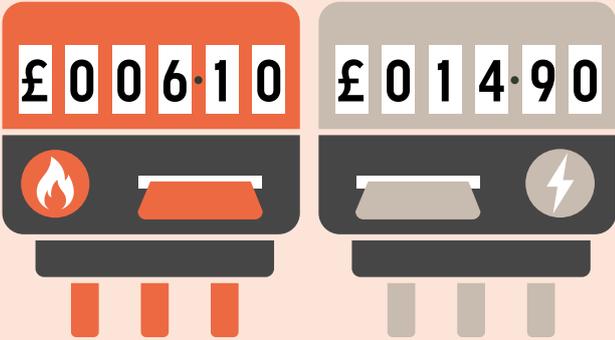
**FAIR BY DESIGN**

Ending the extra costs of being poor

# WHAT IS THE POVERTY PREMIUM?

The poverty premium is the extra costs people on low incomes and in poverty pay for essential products and services. Examples of the poverty premium include:

### USING PREPAYMENT METERS FOR GAS AND ELECTRICITY



£006.10    £014.90

### USING 'NON-STANDARD' BILLING METHODS

e.g. paying on receipt of bill, rather than via direct debit, and paying more for insurance if it is paid for monthly instead of paying the full amount up front



### PAYING MORE



FOR HOME CONTENTS OR CAR INSURANCE BECAUSE OF **WHERE YOU LIVE**

### TAKING OUT INSURANCE FOR INDIVIDUAL APPLIANCES



### USING HIGH INTEREST LOANS & CREDIT CARDS



RATES

### PAYING MORE TO ACCESS MONEY

e.g. through fee-charging ATMs or pre-paid card fees



# THE IMPACT OF THE POVERTY PREMIUM ON LOCAL ECONOMIES

As UK households face the sharpest increase in the cost of living in a generation, it is more important than ever to keep as much money as possible in people's pockets.

This report reveals the economic impact of the poverty premium at a constituency level across Britain. A joint project between Fair By Design and the University of Bristol, this research highlights the opportunity government has to strengthen local economies across Britain by taking centralised action on the poverty premium.<sup>1</sup>

## Key findings reveal:

- A quarter of British households (24%) are estimated to experience at least one type of poverty premium.
- The cost of the poverty premium to a typical parliamentary constituency is £4.5 million a year. This equates to over £430 per year for a low income household – equivalent to nearly 10 weeks' grocery shopping.<sup>2</sup>
- The North East of England (27.7%) has the highest proportion of households incurring the poverty premium, followed by London (26.2%), Yorkshire and the Humber (25.8%) and the North West (25.4%).

- Of the 632 constituencies, Leeds Central (£8.9 million), Manchester Central (£8.4 million), West Ham (£8.3 million), Blackley and Broughton (£7.9 million) and Hackney South and Shoreditch (£7.8 million) have the largest total poverty premiums in the UK.
- Parliamentary seats that the Conservatives won from Labour at the 2019 election typically experience a higher proportion of people incurring the poverty premium than seats that the Conservatives previously held (26% vs 22%).

THE COST OF THE POVERTY PREMIUM TO A TYPICAL PARLIAMENTARY CONSTITUENCY IS  
**£4.5 MILLION A YEAR**

**THIS EQUATES TO  
OVER £430 PER YEAR  
FOR A LOW INCOME HOUSEHOLD**



**EQUIVALENT TO NEARLY  
10 WEEKS' GROCERY SHOPPING**



Use our **interactive map** to see the poverty premium in your local area

<sup>1</sup> The University of Bristol (2022) Mapping the Poverty Premium in Britain. <https://www.bristol.ac.uk/geography/research/pfrc/themes/financial-exclusion-poverty/local-poverty-premium/>  
<sup>2</sup> Average of £44.60 pw for bottom four deciles of income (Living Costs and Food Survey 2020).

## Returning £4.5 million to local economies

Reducing the amount of money low-income households spend on essential services not only has direct benefits for families and their budgets but would return an extra £4.5 million into the average constituency's economy.

**INCREASING THE AMOUNT OF MONEY HOUSEHOLDS HAVE IN THEIR POCKETS WOULD HAVE WIDER SOCIAL AND ECONOMIC BENEFITS**



**INCLUDING THRIVING LOCAL BUSINESSES, JOB CREATION AND STRONGER SOCIAL LINKS WITHIN COMMUNITIES**

Low-income households spend more in their local economy than other groups.<sup>3</sup> Increasing the amount of money these households have in their pockets would have wider social and economic benefits, in the form of thriving local businesses, job creation and stronger social links within communities.<sup>4</sup> A study from Portland, USA estimates that for every \$100 spent in local shops, an additional \$58 is contributed to the local economy, in comparison with an extra \$33 for national shops.<sup>5</sup>

The local cost of the poverty premium is £4.5 million

The national cost of the poverty premium is £2.8 billion

## Benefits to the public purse

Benefits would also be felt by the public purse. Ending the poverty premium would reduce households' reliance on State support and the use of local and national services, such as the use of publicly funded food banks, debt advice services and the costs associated with servicing debt. Council tax arrears currently stand at £4.4 billion – a problem for both the households who have fallen behind and the local authorities trying to fund services.<sup>6</sup> Collection practices are also costly – adding on average £278 to the debt of those who fall into arrears, as well as the cost of employing bailiffs and courts to address these.<sup>7</sup> Reducing the amount of money low-income households spend on essential services would ensure they are better able to manage other expenditure and reduce the likelihood of running into arrears on other bills.

Taking direct action to eliminate the poverty premium would increase living standards and strengthen local economies. This would provide the government with the opportunity to soften the impact of the **cost of living crisis** for those most in need of help and meet the objectives of some of its **levelling up** aspirations, without requiring any additional funding from the Treasury.

3 The University of Bristol (2022) Mapping the Poverty Premium in Britain.

4 Sacks, J (2002) The Money Trail: Measuring your impact on the local economy using LM3. New Economics Foundation.

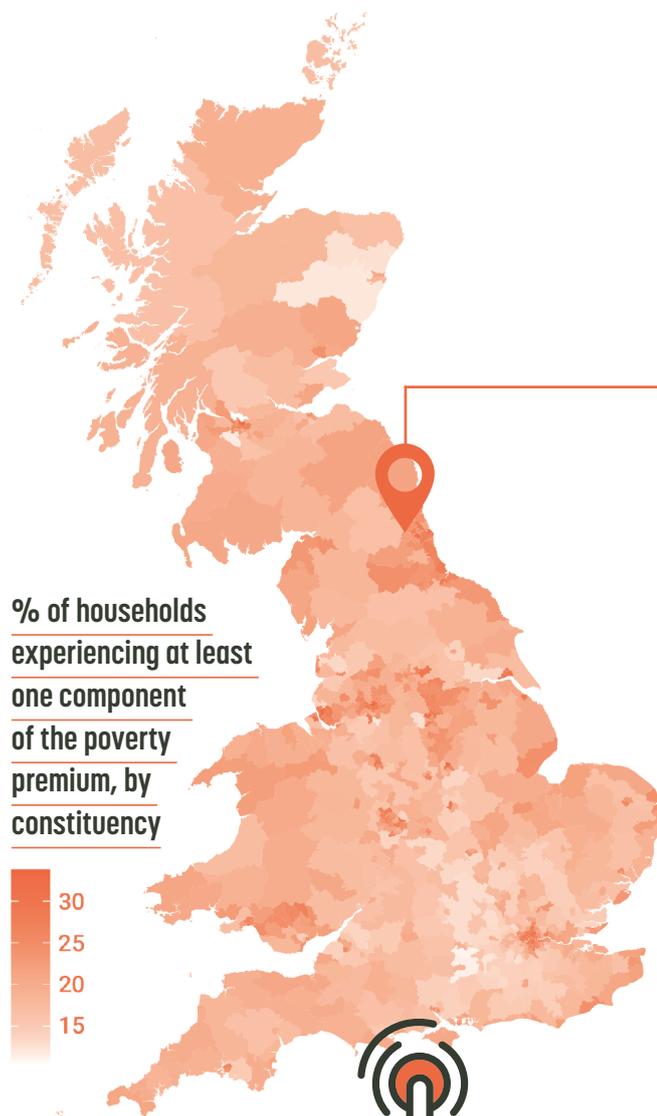
5 Rybaczewska M & Sparks L (2020) Locally-owned convenience stores and the local economy. Journal of Retailing and Consumer Services, 52.

6 GOV.UK: Collection rates for Council Tax and non-domestic rates in England, 2020 to 2021.

7 Derricourt, R, Lane, J, McDonagh, E and Thorne, M (2019) The Costs of Collection The high price of council tax debt collection. Citizens Advice.

# THE POVERTY PREMIUM IN BRITAIN: MAPPING THE IMPACT

The geography of the poverty premium in Great Britain.



Use our [interactive map](#) to see the poverty premium in your local area

## Impact of the poverty premium by region

At a regional level, the North East has the highest proportion of households experiencing the poverty premium: the average constituency in the North East has 27.7% of households experiencing the premium, compared to 21.6% in the South East. In terms of absolute cost, the average constituency cost is highest in London and the North East, at £5 million per constituency. This equates to a total cost of over £360 million to London households per year.

### BISHOP AUCKLAND

HOME TO  
87,000  
PEOPLE

110th  
most deprived  
constituency in the country<sup>8</sup>

Nearly 27% of households experience a poverty premium costing them an **extra £480 a year** for their essential services.



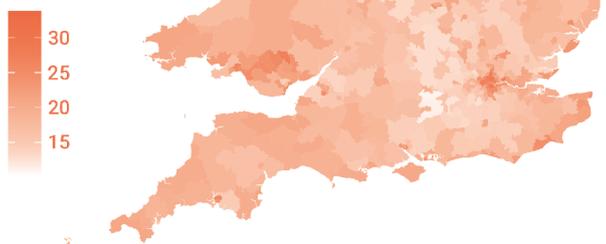
Over 4,000 households rely on electricity pre-payment meters and many more households use non-standard arrangements for paying their energy bills (e.g., Payment on receipt of bill rather than direct debit) **which takes in total, over £800,000 out of their household budgets.**

The premium for living in a deprived area has for insurance totals over **£1.2 million**. If even one quarter of the total poverty premium was removed, then over **£1.3 million** would flow back into the local economy.



<sup>8</sup> Ministry of Housing, Communities and Local Government, Deprivation in English Constituencies, 2019.

**% of households experiencing at least one component of the poverty premium, by constituency**



<sup>9</sup> Ministry of Housing, Communities and Local Government, Deprivation in English Constituencies, 2019.

# BLACKLEY & BROUGHTON

HOME TO NEARLY 110,000 PEOPLE

**4th** most deprived constituency in the country<sup>9</sup>

Nearly **34%** of households experience a poverty premium. The highest in **England** and **Wales** – costing them an **extra £497 a year** for their essential services.



Over **11,000** households rely on electricity pre-payment meters, the extra cost of paying for electricity and gas via prepayment meters **takes over £730,000 a year out of the pockets of local people.**

The premium that living in a deprived area has on insurance totals nearly over **£2 million**. If even one quarter of the total poverty premium was removed, then over **£1.9 million would flow back into the local economy.**



| Region                           | % experiencing any poverty premium | Average constituency cost of all premiums | Total cost of all premiums for entire region |
|----------------------------------|------------------------------------|---|--|
| North East (N=29 constituencies) | 27.7%                              | £5,025,164                                | £145,729,745                                 |
| London (N=73)                    | 26.2%                              | £5,040,067                                | £367,924,905                                 |
| Yorkshire and The Humber (N=54)  | 25.8%                              | £4,888,512                                | £263,979,672                                 |
| North West (N=75)                | 25.4%                              | £4,841,754                                | £363,131,517                                 |
| West Midlands (N=59)             | 25.2%                              | £4,611,447                                | £272,075,391                                 |
| Wales (N=40)                     | 25.1%                              | £3,745,448                                | £149,817,930                                 |
| East Midlands (N=46)             | 24.2%                              | £4,508,086                                | £207,371,966                                 |
| East of England (N=58)           | 22.9%                              | £4,211,719                                | £244,279,723                                 |
| South West (N=55)                | 22.8%                              | £4,169,628                                | £229,329,523                                 |
| Scotland (N=59)                  | 22.4%                              | £4,102,808                                | £242,065,693                                 |
| South East (N=84)                | 21.6%                              | £3,971,148                                | £333,576,409                                 |
| <b>Total (N=632)</b>             | <b>24.3%</b>                       | <b>£4,460,890</b>                         | <b>£2,819,282,473</b>                        |

## Impact of the poverty premium by constituency

Constituencies with the highest exposure to the poverty premium also score highly on the UK government's deprivation rankings.

| Constituency                    | Total cost of all premiums to constituency |
|---------------------------------|--|
| 1. Leeds Central                | £8,837,996                                 |
| 2. Manchester Central           | £8,362,420                                 |
| 3. West Ham                     | £8,323,734                                 |
| 4. Blackley and Broughton       | £7,973,099                                 |
| 5. Hackney South and Shoreditch | £7,857,078                                 |
| 6. Birmingham Ladywood          | £7,686,307                                 |
| 7. Liverpool Walton             | £7,657,976                                 |
| 8. Tottenham                    | £7,639,124                                 |
| 9. Camberwell and Peckham       | £7,553,453                                 |
| 10. Barking                     | £7,510,800                                 |

## The geography of the poverty premium: political implications

Analysis of the data reveals interesting political implications ahead of the next general election. Many of the seats gained by the Conservatives in the 2019 election have a higher poverty premium levels (median 26%) than seats the Conservatives traditionally held (median 22%).

In monetary terms, this equates to approximately a £1.1 million difference in total poverty premium costs between the average newly won seat and seats that the party held at the election (£5.0 million vs £3.9 million). The average Labour seat has a poverty premium of £5.5 million.



Marginal seats gained by the Conservatives with high levels of the poverty premium include:

- West Bromwich West (31.1% of households experiencing the poverty premium)
- Stoke-on-Trent Central (30.9%)
- Wolverhampton North East (30.9%)
- Great Grimsby (30.2%)



Marginal seats held by Labour with high levels of the poverty premium include:

- Dagenham and Rainham (27.3% of households experiencing the poverty premium)
- Wansbeck (27.2%)
- Bedford (25.6%)

Analysing the data through this lens highlights the significance of tackling the poverty premium for national policy makers.

Government intervention to eliminate the poverty premium would put on average £430 back into the pockets of over 3.5 million low income households without requiring any additional funding from the Treasury.<sup>10</sup> This has the potential to soften the rise in the **cost of living**, reduce low income households' reliance on the public purse and meet key objectives of the **levelling up** agenda.

<sup>10</sup> Office for National Statistics, Families and households in the UK, 2021.

# TIME FOR ACTION

The need to reduce or eliminate the poverty premium has never been more urgent. Those who are vulnerable to poverty premiums are increasingly falling into arrears or drawing on costly credit to get by. The consequences of this will fall on both local and national services. More people will seek debt and other advice services, use foodbanks and rely on emergency support such as crisis loans.

The public purse should not have to pick up the costs of providing these services when poverty premiums are often created by the commercial practises of national (or international) companies.



Use our [interactive map](#) to see the poverty premium in your local area

# RECOMMENDATIONS

## Government

- Government to introduce a social tariff for low-income consumers who are struggling with energy costs.
- Government to initiate industry action on ensuring the insurance industry meets the needs of low-income consumers (see below).
- Government to give the Financial Conduct Authority (FCA) a new cross-cutting 'must have regard' to financial inclusion as part of its Regulatory Framework Review to ensure it considers financial inclusion across all of its activities.



## Regulators

- The FCA to investigate how well the insurance market is meeting the needs of low-income consumers.
- The FCA to introduce a price cap on all forms of credit, e.g., home collected credit, pawnbroking and guarantor loans.
- The FCA to stop the 'non-standard billing methods' premium of insurers charging more to customers who pay monthly for their insurance.
- Ofgem to stop energy companies charging customers more for not paying by Direct Debit (including prepayment meter customers).
- The Payment Systems Regulator to ensure inclusive payment methods, such as Request to Pay, are available at an affordable price to utility providers.<sup>11</sup>



## Industry

- Energy companies to stop charging customers more for using prepayment meters. Energy companies should also offer customers on other tariffs more flexible ways to pay bills such as Request to Pay.
- The insurance industry to introduce services to better serve low-income consumers. For instance, replicating the success of FloodRe to other areas of insurance where consumers are priced out of the market.<sup>12</sup>



<sup>11</sup> [www.wearepay.uk/what-we-do/overlay-services/request-to-pay](http://www.wearepay.uk/what-we-do/overlay-services/request-to-pay)

<sup>12</sup> Flood Re is a joint initiative between the Government and insurers. Its aim is to make the flood cover part of household insurance policies more affordable. [www.floodre.co.uk](http://www.floodre.co.uk)

This document summarises research from a report,  
Mapping the Poverty Premium in Britain,  
produced by the Personal Finance Research Centre  
at the University of Bristol for Fair By Design in 2022.  
A full report can be found at:  
[fairbydesign.com/povertypremium](https://fairbydesign.com/povertypremium)

## About Fair By Design



Fair By Design is dedicated to reshaping essential services such as energy, credit and insurance, so that they don't cost more if you're poor – the poverty premium.

We collaborate with regulators, government and industry to design out the poverty premium. Our Venture Fund provides capital/funding to grow new scalable ventures to innovate the market and design out the poverty premium. Ascension manages the Fair By Design Fund.



Fair By Design is managed by the Barrow Cadbury Trust on behalf of a group of foundations.

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