end child poverty

FEELING THE PINCH

January 2017

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#feelingthepinch

Introduction

The End Child Poverty Coalition is a coalition of nearly 100 organisations from all sections of civic society, including children's charities, child welfare organisations, social justice groups, faith groups, trade unions and others, united in our vision of a UK free from child poverty.

Low-income families across the UK are increasingly feeling the pinch because of the dual impact of stagnating family incomes and rising prices, compounded by the 'poverty premium', whereby those with a low income pay more for essential goods and services.

In the UK, there are 3.9 million children living in poverty,[1] and two-thirds of these children are in a household with at least one parent in work.[2] This means there are 2.3 million children living in poverty, despite having a parent in work. It is clear that work alone does not lift these families out of poverty.

Child poverty exists throughout the UK. While it is highest in London and other major cities, such as Manchester and Birmingham, only one local authority (Wokingham) has child poverty as low as 10 per cent – the rate suggested by the (now largely defunct) Child Poverty Act as the target for the proportion of children in relative poverty. Children in large families are at far greater risk of living in poverty – 36 per cent of children in families with three or more children live in poverty, compared with 26 per cent of children in smaller families. This is expected to get worse with the introduction of the two-child limit for tax credits from April 2017.

Furthermore, we know that child poverty is not going to go away. Child poverty is rising – 200,000 more children lived in poverty in 2015 compared to the previous year,[3] and the best projections suggest that the number of children in absolute and relative poverty is set to rise sharply over the next five years.[4]

Poverty is not just an issue affecting out-of-work families, and so in-work support through the social security system (for example, via Child Benefit, tax credits and Housing Benefit) is essential. Increased wages (for example, through the national 'living wage') are welcome, but the number of people in low-income households who are likely to benefit from a higher minimum wage is relatively small. In addition, because of the interaction between pay and benefits, families with children who receive the living wage are likely to benefit the least from this (as a result of consequent reductions in their benefits).

This report outlines, in Section One, how families are losing income as a result of the current benefit freeze – and losing even more, now that prices are expected to rise more sharply. This is further compounded by the effect of the poverty premium on low-income families, as explained in Section Two. Despite being able to afford the least, low-income families have no option but to *pay the most* for basic essentials, like heating their homes with expensive pre-payment meters or buying a cooker or washing machine through a high cost, rent-to-own company. Families might also end up spending more on food because they cannot access big supermarkets, which are often cheaper, and because they do not have the storage space, or money, to buy in bulk.

These families are really feeling the pinch. Stretched incomes mean they are forced to make impossible choices for their children – between healthy meals, warm clothes and heating the home.

End Child Poverty calls on the government to recognise that families are feeling the pinch and to:

- **End the freeze on Child Benefit and Child Tax Credit, and reinstate the link between annual increases in levels and inflation.**
- **Ensure that support with housing costs for families renting privately rises in line with increases in local rents.**
- **Establish a commission to consider how businesses can ensure that their customers on a low income do not have to pay the highest prices for goods and services.**

Notes

[1] Department for Work and Pensions, *Households Below Average Income 2014/15*, 2016, https://www.gov.uk/government/collections/households-below-average-income-hbai--2
[2] Department for Work and Pensions, *Households Below Average Income 2014/15*, 2016, https://www.gov.uk/government/collections/households-below-average-income-hbai--2
[3] End Child Poverty, based on analysis of HBAI figures, June 2016, http://www.endchildpoverty.org.uk/hbai-analysis/
[4] Institute for Fiscal Studies, *Living Standards, Poverty and Inequality in the UK: 2015-16 to 2020-21*, 2016; Joseph Rowntree Foundation, *UK Poverty: causes, costs and solutions*, 2016

One
The freeze in children's benefits

One of the most significant hidden cuts to support for children through the benefits system in recent years has been the repeated reductions in support relative to the rising costs of living, either through below-inflationary increases (such as a three-year 1 per cent cap on increases in benefit rates from April 2013), or through cash freezes – most recently with the decision to freeze benefits and tax credits for four years from April 2016. This policy change has broken the historic link with prices, whereby most benefit levels were uprated annually by at least the rate of inflation since the early 1970s.[1]

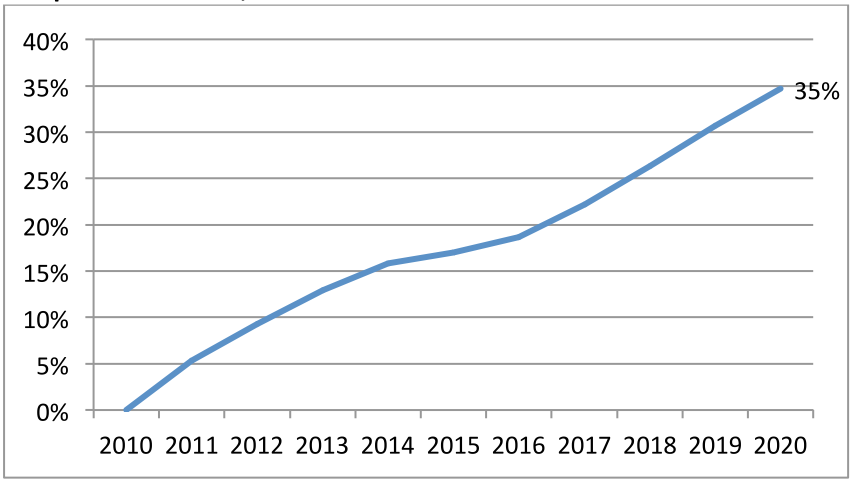
Such cuts to support can be hidden, because they do not result in a reduction in the amount of cash families have in their pockets. Rather than a sudden drop in income, reductions in support are felt as prices rise – an extra few pence on a loaf of bread or a pint of milk, an increase in the price of a warm winter coat, or having to put an extra £1 on the meter in order to get the same amount of electricity.

> ***'It seems like everything is more expensive and has become harder to manage from week to week.' - parent***

Rising prices 2010 to 2020

The Retail Prices Index (RPI), which measures the change in prices of a representative set of retail goods and services, is one of the principal measures of inflation from the Office for National Statistics. Based on inflation measured by the RPI, and as shown below, prices are expected to rise by a third over the course of the 2010s.

Figure 1:
Compound inflation, 2010 to 2020



Source: based on RPI forecasts from the Office for Budget Responsibility, *March 2016 Economic and Fiscal Outlook*, 2016, http://budgetresponsibility.org.uk/download/economic-and-fiscal-outlook-charts-and-tables-march-2016/

For low-income households, the effective inflation rate is likely to be significantly higher than this, because the prices of goods and services they typically buy have been rising by more than the average. The Institute for Fiscal Studies, for example, estimates that over the period 2008/09 to 2013/14, the inflation rate for poorer households was, on average, 1 percentage point higher per year than that for high-income households.[2]

'With the money I receive each month, it's getting more and more expensive to buy food and clothes in the shops.' - parent

Below-inflationary benefit uprating

Until 2010, many benefits were uprated in line with the RPI. However, as a result of years of below-inflationary benefit uprating since 2010, followed by a four-year benefit freeze, many benefits will have risen much more slowly over the course of the decade.

Table 1 shows the maximum rates of different benefits in 2010 and in 2020 – and compares these to the rates that would have been reached had they been increased in line with RPI.

Table 1:
Maximum rates of different benefits and tax credits in 2010 and 2020, compared to their estimated values had they risen in line with RPI

	2010	2020 (projected)	% increase 2010 to 2020	2020 (if increased with RPI)
Child Benefit (oldest child)	£20.30	£20.70	2%	£27.41
Child Benefit (second and further child)	£13.40	£13.70	2%	£18.09
Jobseeker's allowance	£65.45	£73.10	12%	£88.36
Employment and support allowance	£65.45	£73.10	12%	£88.36
Child Tax Credit (family element)	£10.50	£0.00	-100% (note: the family element is removed for new claims from April 2017)	£14.18
Child Tax Credit (per child element)	£44.10	£53.30	21%	£59.54
Working tax credit (for a parent working 30 hours)	£88.20	£91.70	4%	£119.07

Child Benefit has particularly suffered from below-inflationary uprating. **On current policy, Child Benefit will have risen by just 2 per cent over the course of the decade – less than one-sixteenth of the increases in prices.**

Although the child element of Child Tax Credit has increased by 21 per cent, this is still significantly less than the increase in the cost of living, measured by the RPI. In addition, the family element of Child Tax Credit was scrapped altogether – leaving the overall value of Child Tax Credit significantly lower than it was in 2010.

Around 7.5 million children across the UK are living in families that are being affected by a four-year freeze in benefit rates that began in 2016. Of these, around 4.9 million live in working families.

In April 2010, benefit income for an out-of-work single parent with two children (excluding housing costs) was around £198 per week. In order to keep up with the rise in the cost of living by 2020, this would have to increase to around £267 per week. The family's actual 2020 income is expected to be around £214 per week. The real loss of £53 per week will leave this family worse off by nearly £2,800 a year.

Below-inflationary increases in benefit rates also affect low-income working families – in so far as they are receiving one or more of the benefits affected.

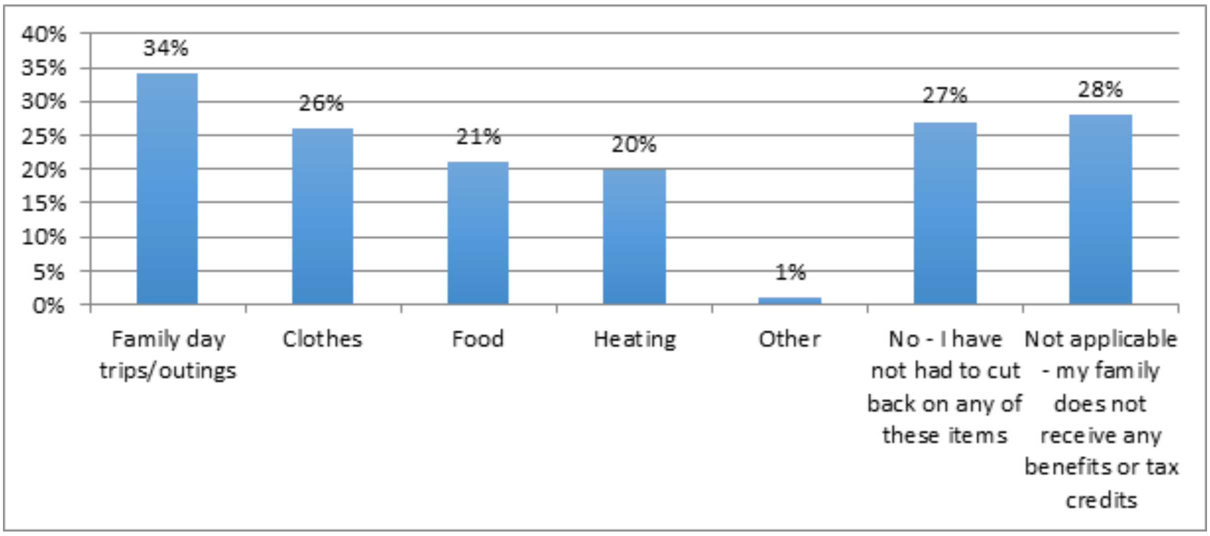
The impact of below-inflationary increases in benefit rates on family spending

The impact of the cuts in support relative to prices is that families must cut back on many of the essentials they used to purchase.

> ***'Most months I have to decide what is more important: clothes for me or my child, or heating.' - parent***

An End Child Poverty poll of parents in 2015 (see Figure 2 below) found that one in five families – the equivalent of one and a half million across the UK, with two and a half million children – said that they had cut back on food, and a similar proportion had cut back on heating their home as a result of benefits having been increased below inflation.[3]

Figure 2
Many benefits and tax credits paid to many families with children (such as child benefit, tax credits, and housing benefit) have been increased below the increases seen in costs of living in recent years. Has this caused you to cut spending on any of the following items, if any, for your family?



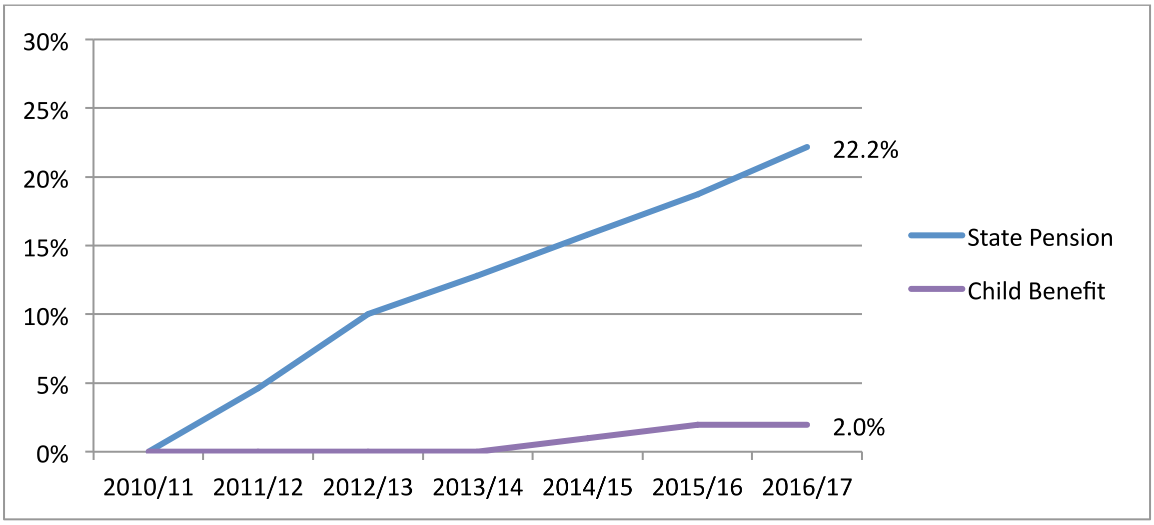
Comparing Child Benefit to increases in the state pension

In 2010, it was decided to 'triple lock' the basic state retirement pension – meaning that it would increase in line with earnings, prices, or by 2.5 per cent – whichever was the highest.

Furthermore, while in 2015 the new Conservative government committed to a further four-year freeze on most benefits and tax credits, it was decided that the state pension would continue to be 'triple locked' up to the end of the decade.

Figure 2 shows the relative increases in the value of the state pension and Child Benefit between 2010 and 2016. As can be seen, the basic state pension has increased by nearly a quarter over its 2010 cash value. It also increased faster than the cost of living, which rose by around 19 per cent over the same period.[4]

Figure 3:
Percentage increase in the cash value of Category A state pension and Child Benefit, 2010 to 2016



On the other hand, as we can see in Figure 3, Child Benefit has risen by just 2 per cent in the last six years, including several years of being frozen altogether – rising at less than one-eleventh of the rate by which the basic state pension has risen.

Had Child Benefit increased at the same rate as the state pension, a family with two children would now receive around £6.80 per week more than they currently receive.

This gap will continue to grow, as a result of the continued application of both the freeze on Child Benefit and the triple lock on the basic state pension, to the end of the decade.

Freezing help with housing costs

The examples above do not include the changes to Housing Benefit made in recent years: children in low-income families have also been affected by below-inflation increases in support with housing costs.

Until recently, the local housing allowance, which determines the amount of Housing Benefit for people renting in the private rented sector, was based on average rents and was increased in line with rises in local rental prices. This ensured that as local rents rose, people were still able to afford to live and work in their own communities.

The coalition government decided to reduce the rate of the maximum local housing allowance from the 50th percentile of local rents to the 30th percentile – meaning that the maximum rent which can be covered by Housing Benefit for those renting privately has been substantially reduced. Crucially, it was also decided to make a number of changes to the way in which local housing allowance rates rise over time as rents go up.

After a year's freeze in local housing allowance rates in 2012, the government decided to increase them in line with the Consumer Price Index (CPI) measure of inflation, rather than with local rents from 2013 – as a result, they rose by 2.2 per cent in that year. It was then decided, in April 2014 and in April 2015 to restrict local housing allowance increases to no more than 1 per cent for these two years (with exceptions for the fastest rising rents through a 'targeted assistance fund').

As a result of this (and other changes), local housing allowance rates now bear little relationship to typical local rents.

> ***'Rent increases have affected funds to use on food, clothes and heating bills.' - parent***

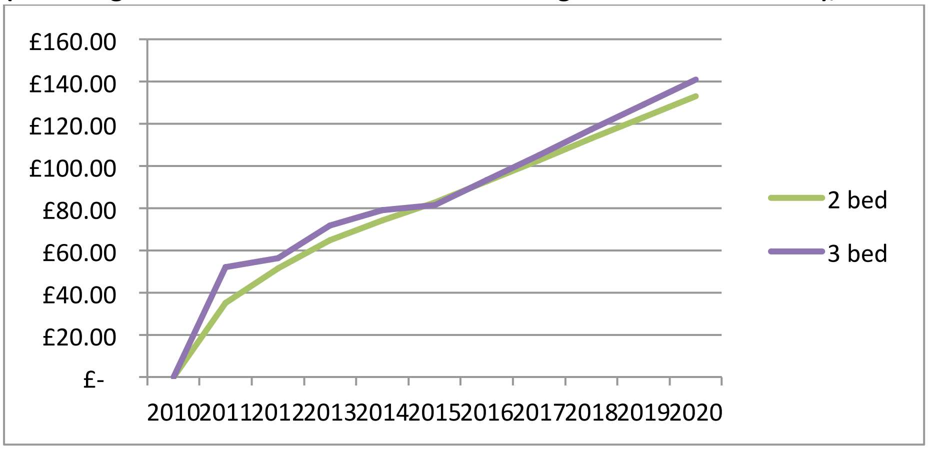
Where private tenants' rents have risen between 2010 and 2015 in line with average rental price inflation (a total of 11.7 per cent over the five-year period), a family renting a typical two-bedroom property in 2015 faced a shortfall of £82 per month on their Housing Benefit entitlement, compared with their actual rent.[5]

Particularly concerning is what may happen to Housing Benefit as rents continue to rise in the second half of the decade. In 2015, the new government decided to freeze local housing allowance rates for four years – from 2016 through to 2020. If actual rents rise by another 11.7 per cent during the second half of the decade, families in a typical two-bedroom property could see the shortfall increase by £72 per month – a total shortfall of around £154 per month.[6]

Some money will be made available to support those areas where rental prices rise the fastest, through continuation of the targeted assistance fund. The intention is to spend 30 per cent of the savings generated from freezing local housing allowance rates (compared to the cost of increasing them in line with inflation). However, even if the increase in the average shortfall between 2015 and 2020 was reduced by 30 per cent as a result, this would still leave a tenant in a typical two-bedroom property with an expected shortfall of £133 per month by 2020. In contrast, in 2010, Housing Benefit would have covered their full rent.

Based on rental price rises between 2010 and 2020, forecasted shortfalls in Housing Benefit compared with local rents for two-and three-bedroom properties are shown in Figure 4 below.

Figure 4:
Estimated monthly shortfall between local housing allowance rates and local average rents (including 30% reduction as a result of the targeted assistance fund), 2010 to 2020



The government's evaluation of local housing allowance reforms found that, faced with the prospect of tenants experiencing these kind of shortfalls, some landlords were attempting to move away from renting to Housing Benefit claimants.[7] And concerns about the increased risk of arrears had led many landlords to tighten their vetting procedures for applicants.

Most worryingly, nearly half of landlords renting to people affected by the local housing allowance said they had seen an increase in rent arrears, and one in five said they had taken action to evict, not to renew or to end tenancies specifically because the tenants could no longer afford their rent because of the reforms.

Some landlords would rather leave homes empty than rent to people on Housing Benefit. One landlord interviewed as part of the government's evaluation said:

'We've managed to get rid of a lot of the people who are on DSS…[8] *the tenants don't have a job and therefore they can't meet the shortfall… they can't pay and eventually a court proceeding takes place to get rid of them, so I'd rather leave my property empty than give it to these people and then try and get them out, it's bad practice. I'd rather not do that, so I just leave it empty.'*

Moving home is a difficult and costly thing to do – it may not only make it harder to find or stay in work, but it can uproot children and their families from schools and local support networks, as well as costing a great deal in fees and charges associated with the move itself.

Many people affected by these cuts will do whatever they can to stay put and deal with the reduction in their disposable income by cutting spending on other essentials. While much of the rhetoric may be around moving home to a place within ones means, even the government itself appears to recognise that this is not an option for many of those affected by cuts like these.

To conclude, government decisions to freeze benefits may not have reduced the amount of cash in a family's pocket, but it has reduced the amount they can afford as prices rise. This is set to have a bigger impact as inflation rises in the next few years: Child Benefit will have risen by just 2 per cent between 2010 and 2020, compared with price rises of 35 per cent.

Changes to the local housing allowance have also been significant, and Housing Benefit for those renting privately is no longer linked to typical local rents. Families in a typical two-bedroom property could see their shortfall increase by £72 per month by the end of the decade – a total shortfall of around £154 per month.

> ***'I am always having to sacrifice more, for myself, to make sure that my child has more – ie, hot meals, toys, clothes etc… To make sure he can get the best at all times.' - parent***

Notes

[1] House of Commons, *Historical Rates of Social Security Benefits (SN/SG 6762)*, 2016
[2] Institute for Fiscal Studies, *The Squeeze on Incomes*, 2014 (chapter 6 in the *Green Budget*), and *The Spending Patterns and Inflation Experience of Low-income Households Over the Past Decade*, 2011
[3] S Royston, *Short Changed: the true cost of cuts to children's benefits*, End Child Poverty, 2015

[4] Measured by the Retail Prices Index
[5] The average local housing allowance rate (across all English broad rental market areas) for a two-bedroom property fell from £550 to £532 between 2010 and 2015. Had the average rate risen in line with average rental price rises, it would have increased to £614 over the same period – which would create a shortfall of £82.
[6] The local housing allowance rate stays frozen at £532, while the average rent increases by £72 to £686 – creating a forecast shortfall of £154 per month.
[7] Department for Work and Pensions, *Monitoring the Impact of Recent Measures Affecting Housing Benefit and Local Housing Allowances in the Private Rented Sector: the response of landlords*, 2014

[8] Despite the Department for Social Security not having existed for some time, 'DSS' is still very often used to refer to people receiving housing benefit.

Two
The poverty premium

Despite benefit rates having been frozen, prices continue to rise and the lowest income families often pay the most for essential goods and services.

The 'poverty premium' is the extra cost people on lower incomes typically pay for goods and services, compared with what is paid for the same goods and services by people on a higher income. The best bank accounts, borrowing rates and energy tariffs are only available for people who have a good level of income, credit rating and/or employment record and who are therefore in a position to shop around.

This poverty premium is hugely significant for families on a low income: when every penny counts, being charged more for the same goods and services can cause further consequences down the line.

A literature review carried out by Hartfree and others found that, from the perspective of low-income households, a poverty premium can arise from a need for tight budgeting control over their finances (for example, preferring to make small, frequent payments) and avoiding behaviours that could upset this.[1] From the perspective of providers, the poverty premium can arise as a result of: pricing structures that penalise low usage; a focus on online service delivery; price offers that target new customers; and a failure to supply products or services that match the needs of low-income households. Providers also charge premiums to reflect higher costs – for example, when insuring people who live in higher risk areas, issuing paper bills, or receiving payments by cheque.[2]

This section updates the poverty premium illustrations previously published by Save the Children on a number of occasions (most recently in 2014). It finds that a typical low-income family could face an annual poverty premium of around £1,700 for everyday goods and services. This could represent a large proportion of a family's overall income.

There may also be other areas of spending that are subject to a premium, such as food costs, transport costs and cash withdrawals.[3] These are not included in the poverty premium calculation, but are explored briefly below.

Note: The calculation copies the methodology used by Save the Children on previous occasions.[4]

Table 2:
Poverty premium in 2016

	Typical cost	**Cost to low-income family***	**Difference**
Loan for £500	£500	£944.84	**£444.84**
Basic household item: cooker	£237.33	£780	**£542.67**
Cost to cash three £200 cheques	£0	£49.50	**£49.50**
Annual electricity and gas bill combined	£1,249.55	£1,320.95	**£71.40**
Home contents insurance	£45.87	£53.11	**£7.24**
Car insurance	£470.04	£1,010.63	**£540.59**
Total	**£2,502.79**	**£4,159.03**	**£1,656.24**

*For a discussion of the methodology used in these areas, see the Appendix.

Source: All figures sourced in October 2016

Are other areas subject to the poverty premium?

In addition to the areas illustrated in Table 2, a number of other everyday costs may be subject to a premium. Some of these are discussed below. Although not representing a comprehensive overview of everything that may be subject to the poverty premium, they do reflect a sense that it may well reach into a number of areas of everyday spending.

Food costs

A number of studies have explored specific aspects of the premium, such as the cost of shopping at retail outlets for food and other household products.[5] While research in the UK has been limited in this area, those without access to a car may find it harder to shop at large out-of-town supermarkets, which can sometimes offer the cheapest prices for everyday food and other household items. Those with limited access to cash may prefer to buy items in smaller quantities and, therefore, may be unable to take advantage of buying items in bulk, which tends to work out cheaper in the long run.

Travel to work costs

Saving money by making larger one-off payments, as opposed to a series of payments over time, can apply across a number of living costs. For example, travelling to work can be extremely expensive and the cost is regularly cited by people as a barrier to work.

Travel costs can seriously limit a viable work search area but, nevertheless, most working people do have to travel beyond their own neighbourhoods. If travelling by train, tram or bus, people can often take advantage of a long-term season ticket, which tends to work out considerably cheaper than paying for a ticket every day or every week. Employees in low-paid work are less likely to be able to make upfront payments because they do not have access to the cash required to do so, and for those in part-time or insecure employment, there is little point in buying a season ticket.

Cash machines

There remains a sizeable number of deprived areas that lack access to ATMs that do not charge for withdrawals (sometimes referred to as 'cash machine deserts'). More than 300,000 people living in poverty across 269 low-income areas are in areas where there are no free-to-use cash machines within a one-kilometre radius. Charges start from 75p per withdrawal, with the average fee being £1.70 per withdrawal. For someone on a low income making regular cash withdrawals, the full cost over the course of a year could be high. For example, someone withdrawing cash every week from a machine that charges £1.75 per withdrawal will pay £91 in withdrawal costs over a 12-month period.

There are a number of areas where low-income families may pay more than others for essential goods and services. Some of these have been quantified via the poverty premium calculation, leading to a potential poverty premium of around £1,700 per year. There may be additional areas where low-income families face higher costs, such as food costs, travel-to-work costs and ATM usage fees. There needs to be better recognition of the fact that low-income families are also consumers and a significant part of the market. More should be done to establish how to better serve this group of consumers.

Notes

[1] Hartfree, Davies and Finney, *Calculating the Poverty Premium*, University of Bristol, April 2016

[2] Hartfree, Davies and Finney, *Calculating the Poverty Premium*, University of Bristol, April 2016

[3] Adapted from:
http://www.raceequalityfoundation.org.uk/sites/default/files/publications/downloads/high%20cost%20paid%20by%20low%20income%20consumers%20-%20FINAL_1.pdf

[4] For a detailed discussion of the methodology, see Save the Children, *The UK Poverty Rip-Off: the poverty premium*, 2010 and *The Poverty Premium: how poor households pay more for essential goods and services*, 2007

[5] Goodman, 1968; Kaufman and others, 1997; Robinson and others, 2000; Maslen and others, 2013

Conclusion

Poverty has a massive impact on children's lives. It leads to a poorer childhood and worse outcomes throughout life. There is a 28 per cent gap between children receiving free school meals and their wealthier peers in terms of the number achieving at least five A*-C GCSE grades.[1] Child poverty also has a cost to society as a whole – estimated to be at least £29 billion a year.[2]

We need action from national and local government, from business, and right across society if we are to improve the life chances of the millions of children living in poverty across the country.

Freezing benefits may not reduce the amount of cash in people's pockets, but cash is not the only thing that matters – what matters is what people can afford to buy with it. The impact of the benefit freeze, in the context of rapid price rises, has a dramatic effect on family incomes. Families on a low income simply cannot afford to pay the increased prices of food, fuel and travel when there is no increase to the pounds in their pocket. The impact of this is further compounded by the poverty premium, which sees families on a low income paying more for many essential goods and services.

> ***'My heating bills are through the roof. Things in shops are more expensive and you get less for your money. You constantly rob Peter to pay Paul.' - parent***

It is politically tempting for the government to uprate benefits below inflation – on the face of it, it does not look like a cut and, because it affects a very large number of people, it saves an awful lot of money. When it was introduced, the four-year benefit freeze alone was expected to save around £4 billion per year (in 2020 prices) by the end of the decade.[3]

But, hidden reductions in income like this still have a real impact on people's lives. The gradual erosion of benefits is a gradual erosion of living standards for those children who rely on this support the most. **End Child Poverty calls on the government to unfreeze children's benefits and to re-instate the link between benefit levels and inflation as soon as possible.**

One area of particular concern is the current freeze on increases in local housing allowance rates for families in private rented homes. In order to address this, **the government should re-establish the link between increases in local housing allowance rates and rises in local rental prices.**

Solutions to the poverty premium are less straightforward. There are often reasons why prices might be higher – for example, cars might be more likely to be stolen in areas of deprivation, leading to higher insurance costs; or supermarket convenience stores may have higher rent and delivery costs. **However, it is clear that the different stakeholders need to think about their consumers in a different way: both to promote ethical trading and also to develop a sustainable consumer base by ensuring families are not out of pocket.**

End Child Poverty is deeply concerned about these families who are feeling the pinch. We call on the government to:

- **End the freeze on Child Benefit and Child Tax Credit, and reinstate the link between annual increases in benefit levels and inflation.**
- **Ensure that support with housing costs for families renting privately rises in line with increases in local rents.**
- **Establish a commission to consider how businesses can ensure that their customers on a low income do not face paying the highest prices for goods and services.**

Notes

[1] Department for Education, ***GCSE and Equivalent Attainment by Pupil Characteristics: 2014***, February 2015, https://www.gov.uk/government/statistics/gcse-and-equivalent-attainment-by-pupil-characteristics-2014
[2] D Hirsch, *Estimating the Costs of Child Poverty*, Child Poverty Action Group, 2013
[3] HM Government, *Policy Costings: Summer Budget 2015,* 2015

Appendix
Notes behind constituent parts of the poverty premium

A loan for £500
The poverty premium illustration calculates the cost of a high-interest loan of £500 repaid over a 12-month period. This is replicated in Table 3 above and is based on the average cost of borrowing from two widely used high-interest lenders.

There are a number of issues to note here: (1) low-income households are less likely to have access to bank account overdrafts (charging no or low interest); (2) the lack of availability of loans for less than £1,000 from mainstream banks; (3) the calculation used in the illustration does not reflect the widespread use of payday loans (ie, relatively small loans repaid over short time periods – typically one month), which increased significantly following the financial crash; and (4) government policy on payday lending does not impact on the high interest loans illustrated in the table.

Basic household item: cooker
The illustration takes an essential household item that is widely available at retailers across the UK. Table 3 shows the average cost of purchasing a basic oven outright from three well-known UK retailers and compares this to the cost of buying exactly the same item on credit from a widely used rent-to-own retailer.

Cost to cash three £200 cheques
As in the original Save the Children methodology, this compares the cost of cashing a cheque at a bank with the cost of a cheque-cashing service. The latter charges a flat fee, plus a percentage of the cheque amount.

Annual gas and electricity bill
The illustration is based on average household electricity and gas consumption in the UK in 2015 as reported by the Department of Energy and Climate Change.[1] It compares dual fuel tariff costs by payment type (monthly direct debit versus prepayment meter) and is based on British Gas price plans.

There are a number of issues to note here: (1) it is unclear at this stage what impact, if any, Ofgem's prepayment meter price cap (introduced in April 2016) will have on the price differential presented in Table 3; (2) the illustration does not reflect the fact that many prepayment meter customers are in debt and, therefore, are likely to be repaying those debts as part of their tariff alongside direct payments for energy use; and (3) the price differential shown in the table is significantly lower for this item than in previous illustrations, which may suggest that the poverty premium in respect of energy costs has fallen.

Home contents insurance[2]
The figures used are averages for four randomly selected deprived areas and four randomly selected affluent areas. As in the Save the Children methodology, household circumstances are kept the same (ie, same value of contents, same excess and for a family of four) across the areas.
There are a number of issues to note here: (1) higher income households may have higher value items to insure, which may increase their premiums, but may be more likely to opt for a lower excess, thus reducing their premiums; and (2) low-income households are far less likely to have home contents insurance.

Car insurance[3]

The figures used are averages for four randomly selected deprived areas and four randomly selected affluent areas. As in the Save the Children methodology, household circumstances are kept the same (ie, same value of contents, same excess and for a family of four) across the areas.

It is worth noting that the illustration keeps all aspects of the household the same and assumes the car is kept on a driveway; the occupation of the insurance applicant is kept the same. However, both aspects can impact on car insurance quotes and changes to these elements could widen price differentials (if we assume, for example, that a better-off household is more likely to keep a car in a garage or have an occupation that lowers premiums).

Note: Both insurance figures (for deprived postcodes and affluent postcodes) assume the consumer pays monthly by direct debit. However, if paid annually, the total costs can be significantly less and it is perhaps more likely to expect a better-off household to make payments in this way. This could therefore increase insurance differentials.

Notes

[1] https://www.gov.uk/government/collections/energy-consumption-in-the-uk

[2] All figures sourced from www.confused.com

[3] All figures sources from www.comparethemarket.com

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