End Child Poverty submission to the APPG on Poverty's inquiry into the poverty premium

1. Executive summary

- Poorer households pay a poverty premium for a range of essential goods and services such as energy, insurance, credit, and goods. In 2016 End Child Poverty estimated that a typical lower income family could pay almost £1700 a year more than those on a higher income.
- Higher costs of credit are a key form of this premium. Families living in poverty are often unable to buy essential goods like fridges and washing machines up front and cannot access cheap credit. They are therefore left with no option but to turn to high cost credit products offered through rent-to-own companies.
- At the same time access to interest free credit through the State has declined significantly in real terms over the course of this decade - from around £790 million in 2009/10, to around £410 million in 2016/17 – a reduction of nearly 50%
- At a time of rising prices and a freeze in children's benefits, family income is being squeezed. Paying higher prices for basic goods and services as a consequence of being on a low income is a further and unjust financial pressure on low income families.

Recommendations:

- the creation of an expanded government interest free credit scheme to halt the dramatic decline in Government provision of interest free credit through the social fund and through local authority schemes.
- tighter regulation of the rent-to-own sector including a cap on the total cost (initial price and interest) of rent-to-own goods.
- the establishment of a Commission to examine how business can work with lower income customers to reduce the poverty premium.

2. Introduction

2.1 End Child Poverty is a coalition of nearly 100 organisations from across UK civil society

2.2 We are concerned that as benefits remain frozen at a time of rising prices, more families are facing financial hardship. The poverty premium is a further unjust pressure on household income.

3. The Poverty Premium

3.1 The 'poverty premium' is the extra cost that people on lower incomes typically pay for goods and services, compared with the cost that 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.

3.2 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 financial consequences such as the accumulation of debt.

3.3 A literature review *Calculating the poverty premium,* carried out by Hartfree et al (2016, University of Bristol) found that, from the perspective of low-income households, a poverty premium can arise as a result of a need for tight budgeting control over their finances (eg preferring to make small frequent payments) and an avoidance of behaviours that could upset this. 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 where they reflect higher costs, for example, insuring people living in higher risk areas, issuing paper bills, or receiving payments by cheque.

3.4 End Child Poverty produced a report in 2017 *Feeling the Pinch* which found that lower income households can pay up to £1700 more a year for goods and services including insurance, fuel, transport and household items. http://www.endchildpoverty.org.uk/feeling-the-pinch-report/

	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 3 x £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	**£2502.79**	**£4159.03**	**£1656.24**

3.5 There are a number of other everyday costs may be subject to a premium:

3.5.1 Food costs

A number of studies have explored specific aspects of the premium such as shopping at retail outlets for food and other household products (Goodman, 1968; Kaufman et al., 1997; Robinson et al., 2000; Maslen et al., 2013). 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.

3.5.2 Travel to work costs

Travel to work can be extremely expensive and the cost is regularly cited by people as a barrier to work.

Travel costs can seriously limit the viable search area for work 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 don’t have access to the cash required to do so and for those in part-time or insecure employment, there’s little point in buying a season ticket.

3.5.3 Cash machines

More than 300,000 people living in poverty across 269 low income areas live in areas where there are no free-to use cash machines within a 1km radius (‘cash machine deserts’). 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 would pay £91 in withdrawal costs over a 12 month period.

4 The Impact of the Poverty Premium on low income households

4.1 At a time of rising prices and the freeze to children's benefits the poverty premium is a further, and unjust, pressure on household income with the impact being felt by children as families are forced to reduce spending on essential items such as food or heating.

4.2 Financial hardship can leave households more likely to enter into high cost credit agreements where the poverty premium is perhaps at its most extreme. In Nov 2017 End Child Poverty launched a campaign focussed on the rent-to-own sector, a form of high cost credit available to low income households for the purchase of essential household items through weekly repayments.

5 The rent-to-own sector

5.1 In 2017 the Financial Conduct Authority reported, in their feedback statement of a review into high cost credit, that at the end of 2016 400,000 people had outstanding rent-to-own debts with a value of £0.5 billion, with approximately 45,000 new rent-to-own loans taken out per month on average.

5.2 The FCA found rent-to-own borrowers had the lowest incomes of all high-cost credit borrowers (median income of £16,000), were more likely to be in household bill arrears and have other high-cost credit products.

5.3 StepChange the debt charity, a member of End Child Poverty, conducted a survey of its clients' experiences of using rent-to-own to buy essential household goods. Their findings formed the basis of our report http://www.endchildpoverty.org.uk/furnishing-your-home-with-rent-to-own-report/

5.4 StepChange's survey of clients who had used the rent to own sector found that 73% turned to them because they could not afford to buy the product outright and that spreading payment through weekly repayments was the only viable alternative.

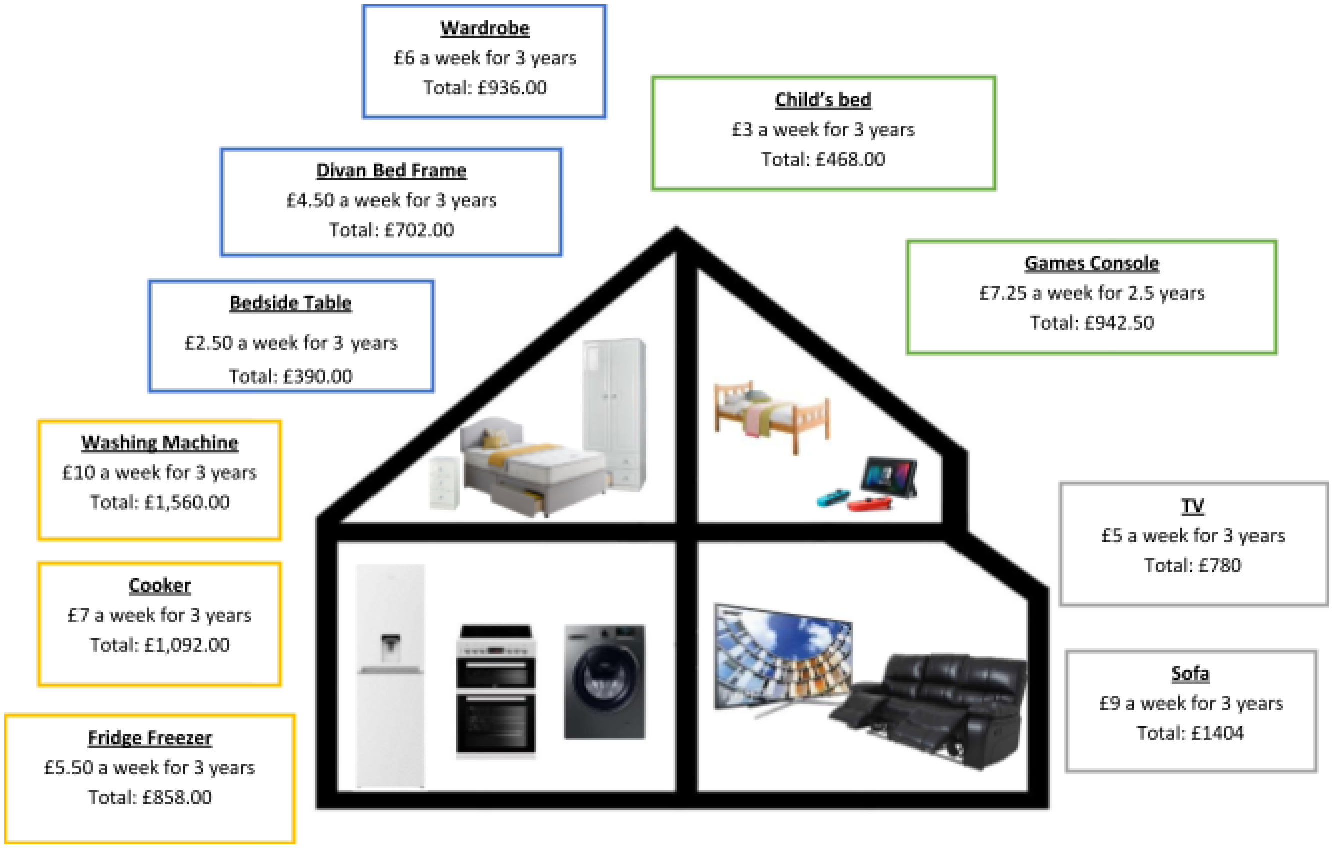
5.5 The StepChange survey of its clients who had used providers in the rent to own sector found that 51% had missed one or more repayments and a further 28% had struggled with repayments.

6. The high cost of rent-to-own goods

6.1 Whilst a weekly repayment plan can be attractive for many people unable to purchase goods upfront, it is a very expensive way of buying basic household goods.

6.2 In our report (referenced above), a comparison of purchasing ten household goods (white goods and furniture) through a rent-to-own company and buying comparable products outright from a high street retailer found a rent-to-own customer could pay up to three times more. (£9,132 over 3 years to £3,127 upfront cost.

The Rent-to-own house – at a total cost of £9132 over 3 years



We also compared the cost of purchasing similar items up front from the cheapest available online retailer. In total, a similar set of 10 items available to buy up front were found to cost £3127.71 (also including delivery and installation charges) – a third of the price. This is illustrated in the table below using costs from Nov 2017.

Comparison of rent-to-own prices with high street retailers (Nov 2017)

Item	**Rent to own Price (with interest over 2 – 3 years)**	**Rent to own Delivery & Installation Cost**	**Alternative Retailer Price**	**Alternative Retailer Delivery & Installation Cost**
3 seater sofa	£2124.00	£60.00	£510.00	Free
32inch TV	£715.00	£65.00	£347.75	Free
9kg washing machine	£1505.00	£55.00	£539.99	Free delivery, optional installation £25.00
60cm Electric Cooker	£997.00	£95.00	£499.99	Free delivery, optional installation £75.00

60cm Fridge Freezer	£803.00	£55.00	£319.99	Free delivery, optional installation £35.00
4’6” Double Bed Frame	£642.00	£60.00	£100.00	Free for orders over £100
3” Single Bed Frame	£408.00	£60.00	£199.00	Free for orders over £100
Games Console	£942.00	Free	£279.00	Free
Wardrobe	£876.00	£60.00	£275.00	Depending on delivery address and distance to local store.
Bedside table	£380.00	£10.00	£56.99	£3.95

6.3 The advertised price of a rent-to-own product before interest and added costs is often significantly more expensive than a comparable product from a high street retailer, penalising low income consumers before any interest is paid. Interest rates of up to 70% and installation and delivery costs means the customer can typically pay up 3 times the price of an equivalent product from the high street, and sometimes as much as 5 times.

7. Concerns about the treatment of rent-to-own customers

7.1 There are concerns that rent-to-own companies undertake inadequate affordability checks with the Citizens Advice Bureau reporting in their 2015 report *Hire purchase, higher prices* that one fifth of rent-to-own customers spend more than 20% of their annual income on repayments.

7.2 In November 2017, the Financial Conduct Authority required one rent-to-own company to compensate customers for unaffordable lending practices (£14.8m to 250,000 customers). www.fca.org.uk/news/press-releases/rent-to-own-provider-brighthouse-14-8-million-redress-249000-customers (accessed 24.10.17)

7.3 Many rent-to-own customers who struggle to meet their repayments have reported aggressive tactics by companies’ debt collectors and an unsympathetic response to requests to restructure their repayment plans. In their 2015 report *Hire purchase, higher prices*, a Citizen’s Advice

Bureau survey of rent-to-own borrowers, found that of those who had missed payments: over 90% were not given a payment holiday; more than a third (34%) were not able to agree an affordable repayment plan; and two in five (41%) said that the company was not understanding of their situation.

7.4 Many customers are in vulnerable situations, not aware of the protection the 1974 Consumer Credit Act gives them (which states that rent-to-own providers need to have a court order before they can repossess goods), and allow debt collectors from the rent-to-own companies to enter homes and take away goods, leaving households without essential items such as fridges and washing machines. The APPG on Debt and Personal Finance's 2015 report from their inquiry into the rent-to-own sector found that over 10% of rent to own customers had goods taken away after falling behind on repayments.

8. Access to interest free credit from the State

8.1 The State has a role in providing interest free credit to households in financial crisis through the Discretionary Social Fund. For example, those in receipt of out-of-work benefits for at least 6 months have access to Budgeting Loans, and until 2013 families facing a financial crisis could also ask for a Crisis Loan.

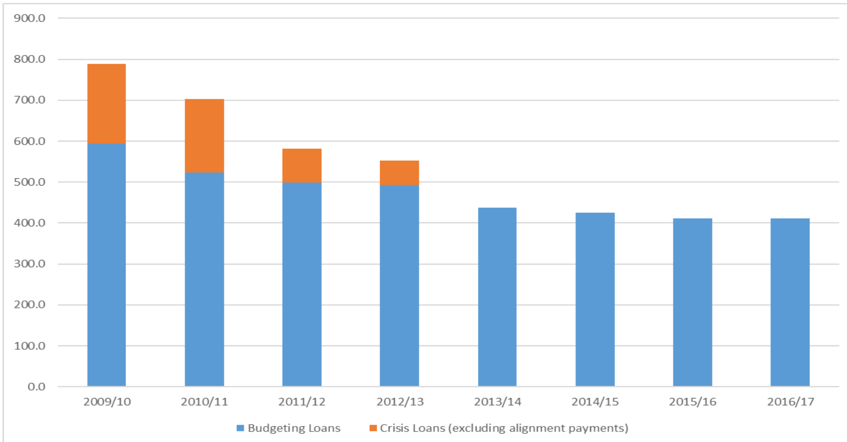
8.2 Interest free credit is excellent value for money as loans are primarily reclaimed through benefit repayments. Therefore, additional investment by the Government each year is limited as the scheme is recapitalised by repayments.

8.3 Repayment rates are good since deductions can be made from people's ongoing benefit entitlement - around 80% of the value of loans made in 2010 was recouped through repayments of loans from the same and previous years.

8.4 Real term spending on budgeting loans through the discretionary social fund has fallen from £790m in 2009/10 to £410m in 2016/17. Crisis Loans were abolished in 2013 in favour of local provision but very few Local Authorities have found the means to introduce any credit provision.

Real terms spending on loans through the discretionary social fund (excluding crisis loan

alignment payments) between 2009 and 2016



9. Recommendations

9.1 **Regulation of the rent-to-own sector** (see more detail in our report http://www.endchildpoverty.org.uk/furnishing-your-home-with-rent-to-own-report/)

9.1.1 The FCA should improve safeguards for customers in financial difficulty.

9.1.2 The FCA should investigate the pricing of goods and services in the rent-to-own sector.

9.1.3 The FCA should consider introducing a price cap that encompasses the full cost charged for goods as part of rent-to-own agreements. This would require ongoing monitoring of average retail prices for equivalent goods, to prevent prices being significantly more than the market price.

9.2 **Improved access to interest free credit from the State**

9.2.1 The Government should create a single fund that combines and extends current provision of interest-free credit.

9.2.2 This fund should be available to anyone eligible to receive Universal Credit (or equivalent legacy benefits) to ensure low income working families were able to access the scheme – with no benefit criteria applying to families requiring access to help in a crisis (as was also the case with crisis loans).

9.2.3 The fund should be capitalised with a one-off payment of £1.5bn. This, with current loan schemes would create a new scheme of £2bn. It would be recapitalised through repayments with an additional annual cost of £400m plus an annual uplift to take account of inflation.

9.3 **Establishment of a poverty premium commission**

9.3.1 End Child Poverty is calling for the establishment of a Commission to consider how businesses can ensure that their customers on low incomes do not have to pay the highest prices for goods and services.