



Greater Manchester Poverty Action response to the All Party Parliamentary Group on Poverty Inquiry: Poverty Premium and Business Toolkit

About Greater Manchester Poverty Action (GMPA)

GMPA works to tackle poverty across Greater Manchester. Our vision is of a city region where all residents can access the benefits and opportunities that living in Greater Manchester presents. We work in the spirit of collaboration and bring stakeholders together to create the conditions in which the potential impact of those seeking to address poverty, whether in the public, private or third sectors, can be realised. We convene, network and collaborate and we seek to influence.

Greater Manchester is home to some of the highest levels of poverty and deprivation in the UK. Over 50% of children in some wards in Greater Manchester are living below the poverty line. Many residents struggle to afford everyday living costs and as consumers often face higher costs for everyday goods and services than those who are better off. Addressing the poverty premium would help ease the financial pressures facing low income households in Greater Manchester.

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How do you think the poverty premium affects low income families?

Over a number of years campaigners have helped to illustrate the potential financial impact the poverty premium can have on low income households. This calculates the cumulative financial impact of the poverty premium if a low-income household faces disadvantages in the marketplace for goods and services in multiple areas of household spending. This illustration was first developed by Save the Children (see appendix for all published illustrations to date). The most recent illustration was published by End Child Poverty and is set out below:

Poverty premium in 2016 – main tableⁱ

	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	£1249.55	£1320.95	£71.40
Home contents insurance	£45.87	£53.11	£7.24
Car insurance	£470.04	£1010.63	£540.59
Total	£2502.79	£4159.03	£1656.24

Data gathered by Graham Whitham in October 2016 on behalf of End Child Poverty. See: <http://www.endchildpoverty.org.uk/feeling-the-pinch-report/>



This illustration builds on previous pieces of research. It has informed various pieces of policy work and research that have sought to understand the poverty premium in the UK context in greater detailⁱⁱ. It also sets out those areas of spending that are most commonly thought to result in low income consumers paying more, namely:

- Cash on credit
- Purchasing goods on credit
- Energy bills
- Household and other insurance.

What is the extent of the poverty premium, in which areas of service or goods provision does it exist, and why does it exist?

In addition to those areas of household spending set out in the table above, several other areas of spending are likely to be subject to the poverty premium. Some of these are discussed below and, whilst not representing a comprehensive overview of all areas that may be subject to the poverty premium, they do reflect a sense that it may well reach into several areas of everyday spending.

Food costs

A number of studies have explored specific aspects of the premium such as shopping at retail outlets for food and other household productsⁱⁱⁱ. Whilst research in the UK has been limited in this area, it is easy to imagine that 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 also find it easy to buy items in smaller quantities and therefore not 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 one-off payments as opposed to a series of payments over time is a payment method that extends to a number of areas (e.g. it is cheaper to pay for insurance by making a one-off annual payment as opposed to paying in monthly instalments). Transport costs are a prime example of where payment method significantly impacts the costs facing consumers. Travel costs can seriously limit an individual's viable 'search for work 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 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. Season ticket loans and 'part-time' season tickets could go some way to mitigating this problem.

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 live in areas where there are no free-to use cash machines within a 1km radius^{iv}. 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.

What steps have been taken by national government, local authorities, public bodies, business or investors to mitigate the poverty premium and how successful or otherwise have these been? And What else could be done by local authorities, national government or public bodies to mitigate the situation?

Steps have been taken over time to address the poverty premium in certain areas, for example addressing the extra costs faced by people purchasing energy through a prepayment meter or paying by quarterly bill as opposed to by monthly direct debit. However, there is a long way to go if the poverty premium is to be eliminated.

GMPA believes that more could be done to strengthen businesses who offer cheaper alternatives or who operate models that do not penalise low-income consumers. This could include, for example, a major effort to strengthen credit unions through marketing and widespread auto-enrolment of employees into credit unions by public sector organisations and other large employers.

GMPA is particularly concerned that people on low incomes have limited options to access relatively small amounts of cash when facing unexpected costs or severe hardship. The central government discretionary Social Fund (ie, crisis loans and community care grants) was abolished from April 2013. Local Welfare Assistance Schemes, which were seen as a replacement to the Social Fund by central government and are operated by individual local authorities in England, appear to largely provide support in the form of signposting and access to vouchers. 'Payments on account' and 'Budgeting advances' which operate through the social security system and are repaid through deductions in benefit payments, do not appear to be meeting the needs of low income households. The provision of small crisis grants and loans by public bodies has therefore become increasingly limited in recent years.

GMPA would like to see the reinstatement of a central government crisis grants and loans scheme that better meets the needs of low income households and provides loans of between £1 and £999. At a Greater Manchester level we believe there is scope for a pooled Greater Manchester wide crisis loans scheme that could involve local authorities, the combined authority, social landlords, credit unions and health bodies.

What else could be done by business and investors to mitigate the situation?

An attitudinal shift is required among businesses so that they better recognise the value of selling goods and services to low-income consumers. This approach, taking a similar view as that explored in the developing world - 'the fortune at the bottom of the pyramid' – involved identifying the business case for designing goods and services so that they better meet the needs of low income consumers'. It requires a recognition that low-income consumers have spending power that should be harnessed overtime as a means of contributing to business success and sustainability, not as a group to be exploited or ignored.

Appendix

Further reading

Previous illustrations of the poverty premium as published by Save the Children over a number of years are set out below. Other explorations of the poverty premium informed directly by the Save the Children methodology include:

- In 2016 Graham Whitham explored the likelihood that certain groups at greater risk of poverty (e.g. those with disabilities) could be paying over the odds for goods and services on behalf of the Race Equality Commission.

- In 2015 Citizens Advice Scotland reported low income consumers were paying around 10% more for essential goods and services.^{vi}
- In 2014 Toynbee Hall carried out research into the poverty premium in Tower Hamlets and suggested residents could face extra costs of £1014 against the items of spending listed in Save the Children's approach.^{vii}
- In 2013 the JRF published research suggesting that low income consumers could face extra costs of 10p in every £1 spent on everyday goods and services.^{viii}
- A 2011 Church Action on Poverty report sets out 'real-life' experiences of the poverty premium.^{ix}

An illustration of the poverty premium in 2013/14^x

Poverty premium in 2013/14	Typical costs	Costs to low-income families	Difference
Loan for £500	£500.00	£929.51	£429.51
Basic household item: cooker	£249.00	£858.00	£609.00
Cost to cash 3 x £200 cheques	£0.00	£39.00	£39.00
Annual electricity and gas bill combined	£1,136.00	£1,377.00	£241.00
Home contents insurance	£64.33	£67.10	£2.77
Car insurance	£454.77	£772.74	£317.97
Total poverty premium in 2013/14	£2,404.10	£4,043.35	£1,639.25

An illustration of the Poverty Premium (2010)^{xi}

	Typical costs	Costs to low income families	Difference
Basic household item: cooker	£239.00	£669.24	£430.24
Loan for £500	£500.00	£750.00	£250.00
Cost to cash 3 x £200 cheques	£0	£36.00	£36.00
Annual electricity and gas bill combined	£881.06	£1,134.23	£253.17
Home contents insurance	£66.72	£98.64	£31.92
Car insurance	£309.82	£597.96	£288.14
Total Poverty Premium			£1,289.47



Illustrating the poverty premium (2007)^{xii}

	Typical costs	Costs to low-income households
One expensive consumer good	£159.99	£405.00
One £500 loan	£539.00	£825.00
Three cashed £200 cheques	£0.00	£49.50
Annual gas bill	£609.70	£673.70
Annual electricity bill	£339.30	£368.20
One mobile phone	£315.96	£395.44
Home contents insurance	£465.85	£618.80
Car insurance	£475.48	£571.55
total	£2,905.28	£3,907.19
Poverty premium	£1,001.91	

ⁱ All figures sourced in October 2016

ⁱⁱ See for example, Purdam, Kingsley, Sam Royston, and Graham Whitham. *Measuring the “poverty penalty” in the UK Significance* 14.4 (2017): 34-37.

ⁱⁱⁱ See for example Goodman, Charles S. (Jan 1968). *Do the poor pay more?* *Journal of Marketing* (American Marketing Association) 32 (1): 18–24

^{iv} As reported in the Guardian: <https://www.theguardian.com/society/2014/jan/01/poor-people-free-cash-machines>

^v Prahalad, Coimbatore Krishnarao. *The fortune at the bottom of the pyramid: Eradicating poverty through profit* Upper Saddle River, NJ: Wharton School Pub (2004).

^{vi} See: http://www.cas.org.uk/system/files/publications/final_formatted_copy.pdf

^{vii} See: http://www.toynbeehall.org.uk/data/files/Reports/The_Poverty_Premium_Report.pdf

^{viii} See: <https://www.jrf.org.uk/blog/poor-are-still-paying-more-basic-utilities-and-financial-services>

^{ix} See: <http://www.church-poverty.org.uk/news/pressroom/resources/reports/overtheodds>

^x Kothari, P. Whitham, G. and Quinn, T. (2014) *A fair start for every child - Why we must act now to tackle child poverty in the UK* Save the Children (page 17).^x

^{xi} Save the Children *The poverty rip off: The poverty premium in 2010* (January 2011)

^{xii} Save the Children and the Family Welfare Association, *The Poverty Premium - How poor households pay more for essential goods and services* (2007)