Joseph Rowntree Foundation Response to APPG on Poverty Inquiry into the Poverty Premium

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

The Joseph Rowntree Foundation is a social change organisation working to inspire action and change to solve UK poverty. In September 2016, JRF launched "We can solve poverty in the UK" – a comprehensive, evidence-informed, all-ages strategy with calls to action to governments at all levels, businesses, employers, providers, communities and citizens. Among the recommendations was a call to end the unfairness of the poverty premium. The content in this submission is largely drawn from Chapter 5a on "High costs driving poverty' in the JRF report "UK Poverty: Causes, costs and solutions" (JRF 2016): https://www.jrf.org.uk/report/uk-poverty-causes-costs-and-solutions; see also "Poverty and the cost of living: an evidence review" by Adam Tinson et al (2014) https://www.jrf.org.uk/report/poverty-and-cost-living.

JRF's definition of poverty is when a person's resources are well below their minimum needs, including the need to take part in society. Poverty is seldom the result of a single factor. Our strategy focused on five key causes that need priority action: unemployment, low wages and insecure jobs; lack of skills; family problems; an inadequate benefits system; and high costs.

With regard to high costs:

- Poverty premiums are one *part* of the bigger picture of how high costs drive, deepen or prolong poverty in the UK. Housing costs especially, also childcare and transport, can create the biggest 'costs' squeeze on people in poverty.
- Some higher costs arise from personal circumstances such as a health condition or disability (see Scope's work on extra costs) or where people live.
- People with lower incomes generally spend a higher proportion of their household budget than better-off households on essential items such as rent, food and energy. Costs are also influenced by *how* people access and pay for essential goods and services.

The poverty premium is one dimension of the wider role that costs and markets play in UK poverty. Recent research by the University of Bristol has helped to capture and quantify poverty premiums, emphasising that the scale and costs can vary widely across households, geographies, and for different types of services and goods.

People with less money and skills are generally in weaker positions in relation to markets, and this can result in paying more for essentials, like energy and credit. Poverty premiums compound the everyday struggle of making ends meet, further restraining the lives and potential of children and adults on low incomes. Poverty means not being able to heat your home, pay your rent or buy essentials for your children. It means facing insecurity, uncertainty and impossible decisions about money every day. The constant stress it causes can overwhelm people. Poverty can mean marginalisation because of your financial circumstances. Mental health and loneliness are issues raised repeatedly by people with lived experience of poverty who have participated in local Poverty Truth Commissions. Links between poverty and other social and economic determinants of health and well-being are well-known.

Ways in which poverty premiums can affect low income families include:

- Getting less value from the same goods and services, compounding the struggle to make ends meet, restraining lives and creating impossible choices (such as between eating and heating). This may arise from how people pay, where people live, and lacking ‘enablers’ to find better details.
- Spiralling problems (such as problem debt and debt-related stress) arising from use of expensive tariffs, or high cost credit, where more affordable credit is unavailable or unattractive for a range of reasons (some relating to market functioning and competition, some to consumer preferences).

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

People with less money and skills are generally in weaker positions in relation to markets, and this can result in paying more for essentials. Poverty premiums occur when:

- market failure results in a lack of price competition
- markets do not offer products that are designed to meet the needs of low incomes consumers, and/or
- it costs more to provide goods or services to low-income households.

Sometimes the preferences of, and constraints faced by, low-income consumers compound the problem – such as when people can’t afford to pay upfront for insurance and must pay extra to pay monthly; or the need to keep a tight control over a limited budget leads to the avoidance of direct debit, even though it is usually cheaper.

Lacking access to ‘enablers’ – such as the internet, transport or affordable credit, and lacking digital skills and confidence, all of which help people to get a better deal, makes matters even worse.

The ‘poverty premium’ changes as products and markets change – with new poverty premiums emerging and some disappearing. This is what has led JRF to invest in businesses to develop products or services with potential to ‘design out’ poverty premiums through the Fair by Design Fund. This fund focuses on four areas: energy; finance; insurance; and geo-based premiums (related to where people live).

JRF recently commissioned the Social Market Foundation to undertake research and policy development on eliminating the poverty premium in energy. We are delighted that the SMF has separately submitted a full response to the APPG on Poverty Inquiry into the Poverty Premium drawing on their work.

3) 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?

Evidence is still limited on the success or otherwise of steps and initiatives. In 'UK Poverty: Costs, Causes and Solutions' we highlight a number of promising developments including:

- Improving rights and access to basic bank accounts
- OfWat's approach to measuring water affordability risks by household type
- FCA's approach to providing market and consumer insight into emerging areas of disadvantage or detriment for people in poverty
- Place-based initiatives to reduce costs and poverty premiums in essential goods and services – such as collective switching, wholesale purchasing, improving energy efficiency to reduce demand and thereby costs, and access to more affordable credit (e.g. ScotCash in Glasgow).

4) What else could be done by local authorities, national government or public bodies to mitigate the situation?

JRF commissioned the Social Market Foundation to develop recommendations to eliminate about the poverty premium in energy. There is also growing evidence on poverty premiums in finance, especially credit. Below we focus on cross-cutting areas that warrant attention by public bodies and governments at all levels:

- Invest in *monitoring outcomes* for low income consumers and their experience. The 'typical' consumer experience is not a good guide to the experience of low income consumers; and monitoring market outputs (like the number of providers and products) is not a good indicator for consumer outcomes. Regulators and competition authorities could be given a mandate for more decisive action, monitoring outcomes for low income consumers, and gathering intelligence on upcoming issues that may cause detriment.

- Invest in *enablers,* such as increasing digital inclusion and skills among already economically and socially excluded groups. This requires action on digital access (including costs and availability of broadband, as while costs have fallen they still present a barrier for some people in poverty, and in some areas). Even more importantly, this requires increased and urgent action on building digital literacy skills, confidence and motivation. Digital inclusion is becoming more urgent as more activities and services – including public services (such as health), access to benefits and applying for jobs go online. Basic digital skills should be regarded as a core capability alongside literacy and numeracy – essential for social and economic participation in UK, as well as enabling people to avoid paying more for essentials.

- Invest in *alternatives*, whether alternative goods and services or alternative providers to disrupt existing markets. This is why JRF has partnered with Big Society Capital, Nominet Trust, Ascension Ventures, Finance Birmingham and Wayra UK – establishing a social investment fund to deploy capital into businesses designed to make an impact on the poverty premium. This is focused on four areas: Energy; Finance; Insurance; Geo-based premiums. We expect this to stimulate and support businesses and investors to take more concerted and effective action on different poverty premiums.

- Invest in *smarter policy design*, where policies recognise and mitigate the impact of poverty and low socio-economic status on people's everyday decision-making processes. This recommendation is informed by research JRF commissioned on poverty and decision-making, and on the links between poverty and low-level stress. For example, research by the Behavioural Insights Team, "Poverty and decision-making: How behavioural science can improve opportunity in the UK", advocated a 'cognitive load test': *"policymakers should not reduce the value of their investments in anti-poverty programmes through complex and stigmatising application processes and eligibility checks which absorb cognitive bandwidth. We all have limited mental processing capacity to reason, to focus, to learn new ideas, and to resist temptation. The worries involved in making ends meet every day already deplete bandwidth so government services aiming to tackle disadvantage – such as savings schemes, employment advice and parenting programmes – should be required to pass a cognitive load test to ensure these services do not make it harder for people on low incomes to make good decisions for themselves."* (Gandy et al, 2016).
    - http://www.behaviouralinsights.co.uk/uncategorized/poverty-and-decision-making-how-behavioural-science-can-improve-opportunity-in-the-uk/

- Invest in *working alongside people on low incomes* to inform solutions design. This might be about policy design, or design of goods and services, or design of approaches to promotion and marketing to increase take-up among target low income households. From a JRF perspective, we believe this is essential for good outcomes and sustained social change, and challenging to do well.

- Invest in *reducing stigma* to improve the take-up of social tariffs and other entitlements and support that is available to low income consumers. This issue emerged in consultations with people who experience poverty during JRF's strategy development, and through research on "How poverty affects people's decision-making processes" (Sheehy-Skeffington & Rea 2017). Public engagement and education to challenge stereotypes about people living in poverty could lessen the damaging effects of stigma related to poverty on people's decision-making and sense of self-efficacy.
    - https://www.jrf.org.uk/report/how-poverty-affects-peoples-decision-making-processes

- Invest in the *broader role in reducing costs and accessing entitlements* that local authorities, public bodies and trusted intermediaries such as housing associations can play. For example: ensuring access to information, advice and guidance to low income consumers; improving approaches to managing debt to public authorities such as Council Tax debt; practical support with improving the credit rating of low income households with 'thin files'; brokering place-based partnerships, for example between banks and voluntary sector organisations to increase take-up of basic bank accounts; co-ordinating local provision to increase the take-up of social lending and affordable credit or collective switching schemes; sustain access to local safety nets that mitigate the extreme impact of poverty premiums and high costs on people in poverty.

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

Solving poverty, including working to end poverty premiums, is a task for all of us.

What JRF is doing:

- As a social investor, JRF is investing in providers of affordable credit and finance, and a founding investor in the Fair by Design Fund (see response above).

- As a social change organisation, JRF is supporting the Fair by Design Campaign - a multi-funder collaborative, led and hosted by Barrow Cadbury Trust, working towards the goal of ending the poverty premium in a decade. This will involve partnership with others to identify what else can be done by public bodies, governments at all levels, businesses and civil society to end the poverty premium.

- In Hartlepool, where JRHT operates as a housing and care provider, JRF has catalysed an innovative place-based social action programme to put £1m back into the pockets of people in poverty in Hartlepool during 2018 through different means – including support with accessing better deals online, and increasing take-up of benefits and support to which people are entitled.

- As a responsible employer: JRF has taken a number of steps to minimise the poverty risks and consequences for employees in the Joseph Rowntree Foundation and the Joseph Rowntree Housing Trust, including: Paying the voluntary living wage; Partnership arrangement with Leeds Credit Union (savings, loans); Support for flexible working; Promoting employee benefits, especially among lower-paid staff, including season ticket travel loans, access to low cost loans, smart tech, energy switching, health care, employee assistance programme, and digital champions programme.

What other businesses and investors might do:

- Invest in *enablers* such as digital inclusion – increasing digital access, skills, confidence among low-income consumers and employees. This will be increasingly important as digital technology creates new ways for businesses to give people better deals.

- Invest in *alternatives*, such as providing loan capital for new and existing organisations involved in social lending and affordable credit.

- Invest in *partnerships* with trusted intermediaries to increase awareness, access and appropriateness of better deals and available support for low income consumers.

- Invest in *working alongside low-income consumers and employees* to ensure that available entitlements, goods and services can be easily accessed and respond to consumer needs and preferences. This includes thinking about ‘cognitive load’ or ‘bandwidth’ and avoiding stigmatising language and application processes.

- Invest in *co-design of solutions* with low-income consumers and employees (or groups representing them) alongside other relevant stakeholders.

If you are a consumer on a low income, please describe any experience you have of paying a premium for goods and services.

We welcome the decision by the APPG on Poverty to explore the poverty premium in more detail and to place a high value on the expert experience of people on low incomes as part of the inquiry.

In addition to the evidence above, we are looking for suggestions about the content of a business toolkit that could be used to guide businesses about how to avoid the poverty premium and help address the problems faced by low-income families.

What help can employers give to their staff e.g flexible working, hardship fund, sign-posting to credit unions or ethical lenders, saving for rental deposits etc?

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