

Social tariffs and the cost of living

Assessing the case for social tariffs as a mechanism to ensure access to essentials

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The Social Market Foundation is Britain's leading cross-party think-tank, standing proudly in the centre-ground of politics since 1989.

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Overview

The rationale for this research

- This project aims to explore the case for policy interventions, chiefly ‘social tariffs’, to support households with the cost of living.
- **The recent cost of living crisis has highlighted the need for support** to help people afford essentials. Many households across the country are going without.
- However, **concerns about the ability of markets to provide affordable access to essentials predate – and will continue beyond – the current economic turbulence.**
- Recent interventions to address the cost of living crisis include supporting incomes through payments such as the ‘£20 uplift’ to Universal Credit, and decreasing costs through ‘**social tariffs**’ – **discounted rates for eligible groups of consumers, typically those receiving benefits** – in broadband and water.
- However, **existing interventions have been ad-hoc** and, in the case of social tariffs, largely voluntary.
- To ensure better support now and faster support in future, **we need a coherent policy framework to help households to afford their essentials.** This is the focus of our project.

Research methods

Our research so far has included:

1. **Two online focus group sessions** with low-income individuals
2. **A nationally representative poll** with a sample size of 4,000
3. **Data analysis** of the 2019-20 Living Costs and Food Survey ('LCFS')
 - We used the 2019-20, rather than the 2020-21 LCFS dataset, due to the abnormal influence COVID-19 lockdowns had on spending patterns.
4. **Desk research** of secondary evidence on the cost of living and applications of social tariffs
5. **Consultations** with policy experts and industry bodies

Research Questions

This interim report focuses on the following key questions:

- To what extent are households struggling to affordably access essential goods and services?
- Which groups of people are struggling most to affordably access essential goods and services?
- Which markets for essential goods and services are failing to supply essentials at reasonably affordable levels?
- Are existing social tariffs working effectively?
- What are people's experiences of social tariffs to date?
- Where does public opinion stand on support for low income/struggling households with essentials?

Summary: the economic context

Our interim findings suggest that...

Households see a wide range of goods and services as essential.

- These include energy, water, food/groceries, broadband, mobile phone services, public transport, home and car insurance.

Households are struggling to afford essential items.

- Over half of respondents in our polling said they spent more than half of their household income on essentials.
- Around 3 in 10 households reported struggling with the cost of essentials. This rises to around half for those on Universal Credit or on a low income.
- Even before the current cost of living crisis, the average household spent more than a quarter of their after housing costs (AHC) income – that is, excluding their rent and mortgage payments – on essentials.
- Before the current crisis, the poorest 10% of households typically spent half of their AHC income on essentials according to the LCFS.

Summary: markets for essential items

Our interim findings suggest that...

Overall, markets in essential items are working well in terms of competition...

- Most households 'shop around' for essential goods and services, and people are more likely to find this process easy than difficult.
- The majority of households (80-90%) manage to find better deals when they do shop around.

...but there are limitations to the extent market competition can solve affordability concerns

- A significant minority find the process of shopping around difficult to navigate.
- The proportion of people able to find better prices when shopping around decreases with income.
- Even when people do shop around for items, a significant proportion still find those items are very difficult to afford.
- Our focus groups uncovered a degree of scepticism around markets: there is a perception that businesses do not pass on wholesale cost reductions to consumers.

Summary: effectiveness of current support

Our interim findings suggest that...

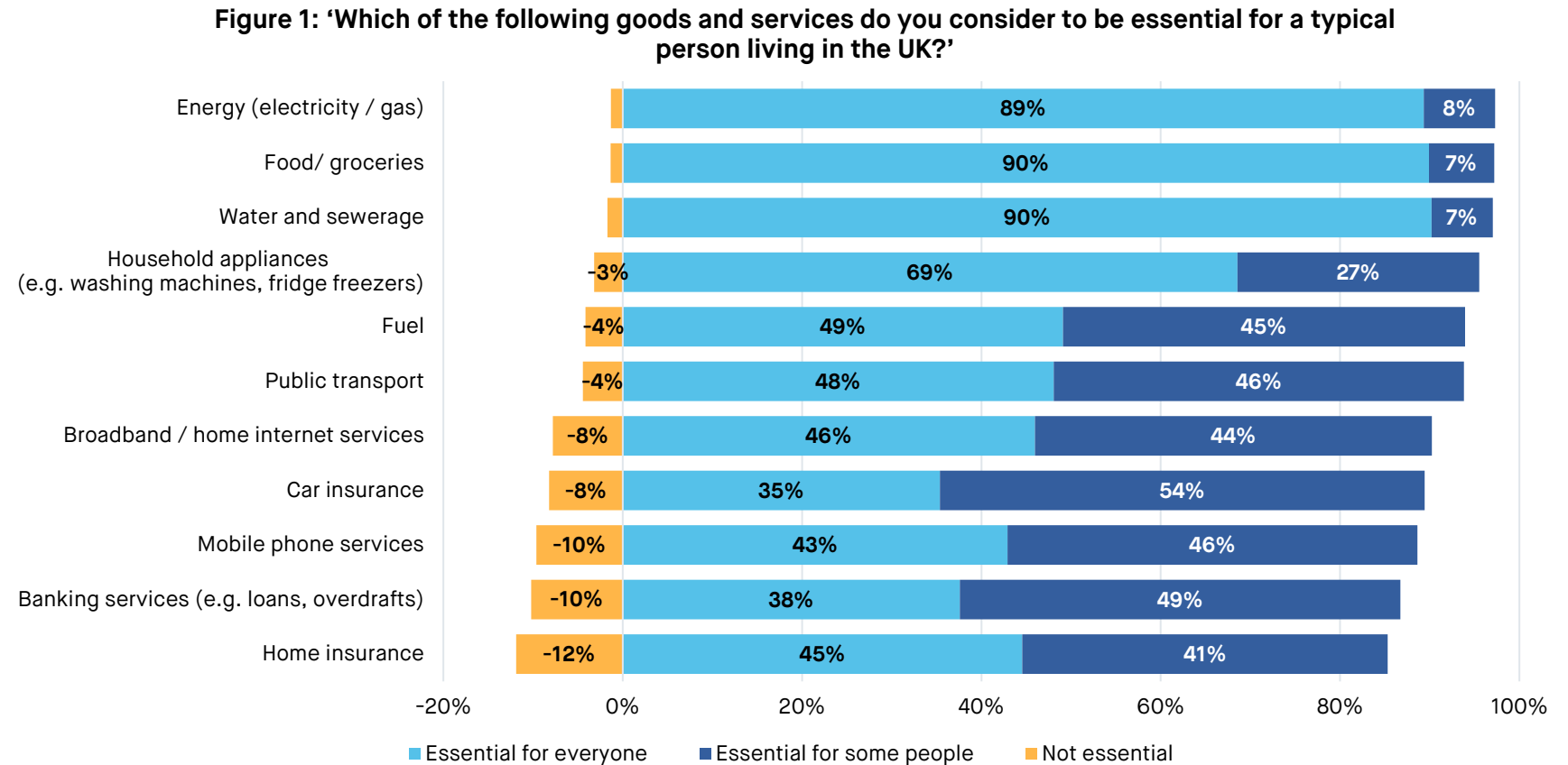
- **Households do not think there is enough support** to help with the cost of living.
- Our polling showed there is **broad public support in principle for social tariffs**.
- In our focus groups, most people had heard of social tariffs, and experiences of using them have been broadly positive.
- However, **many people who could benefit are not accessing social tariffs**.
 - A substantial minority of those on Universal Credit (UC) in our polling said they would not qualify for social tariffs, though most social tariff schemes use UC as an eligibility flag. This suggests there's a lack of awareness amongst groups who could benefit from social tariffs.
 - LFCS data suggests there are around 1.1 million households in the bottom income quintile who do not receive income from benefits, suggesting current social tariffs don't capture everyone who needs support.
- There are also issues highlighted by those who have experience of social tariffs:
 - **Lack of signposting** – many say information on social tariffs is hard to come by
 - **Perceived trade-off with quality** – social tariff deals are perceived as inferior to normal tariffs
 - **Postcode lotteries** – recognition that different generosity and eligibility between social tariff schemes entails a 'postcode lottery' for support.

Context

‘Essential’ covers a broad range of goods and services

Some goods are essential for everyone, others for groups of people

- For all of the items we polled, the majority of respondents viewed them as essential.
- Some services, such as energy, are seen almost universally as essential for everyone.
- Others, such as transport, are seen as essential for particular groups of people that rely on them.
- Our focus groups suggested that access to essentials should be sufficient to participate in society, not just survive.



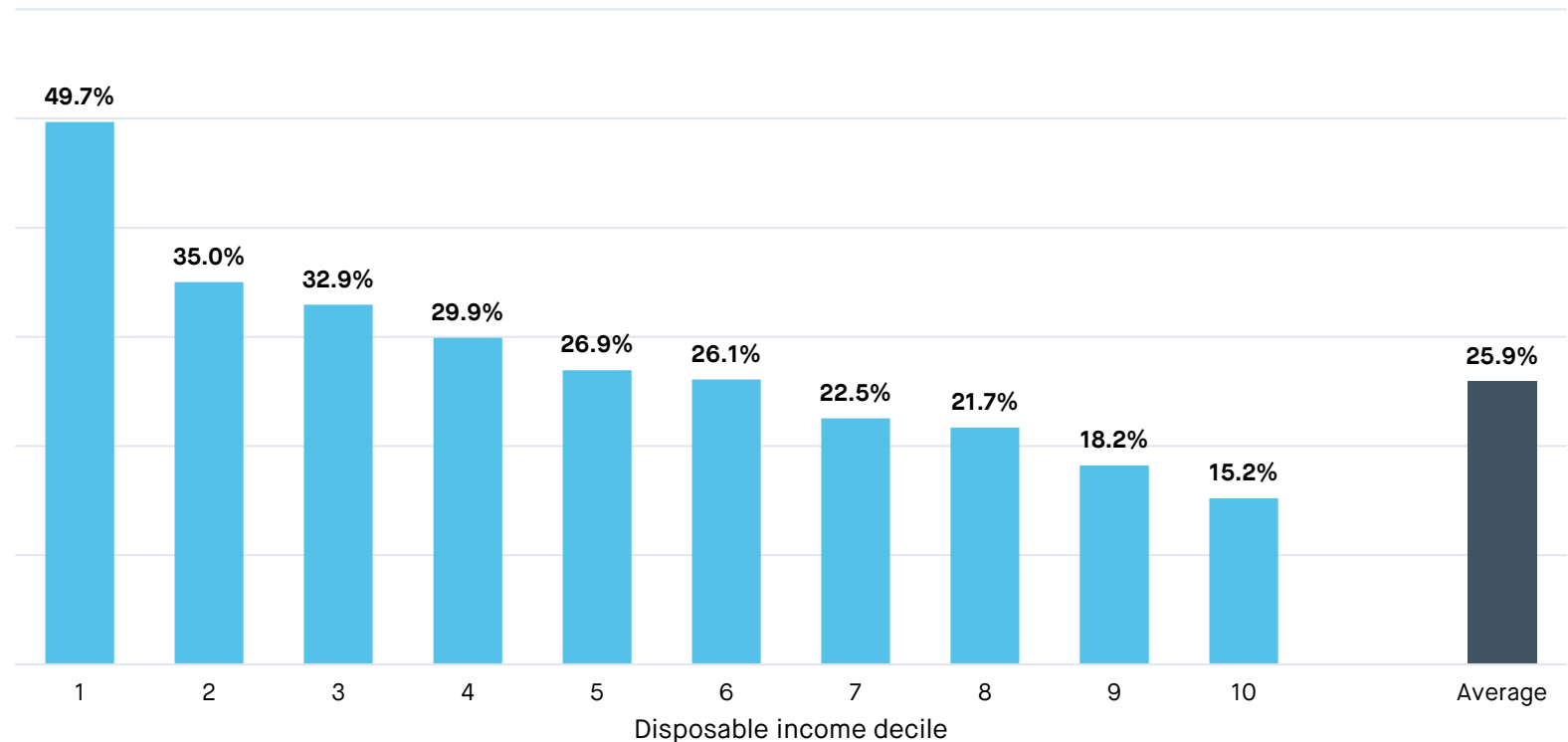
Source: Opinium survey. Base: 4,000 respondents.

The situation before the current cost of living crisis

The 2019-20 LCFS shows what the situation for affordability was before COVID and high inflation

- The median household spent 26% of after housing costs (AHC) income (which excludes rent and mortgage payments) on essentials.
- Poorer households spent a much greater proportion on average.
- **Relative spending on essentials is likely to be considerably higher now** than this analysis suggests, given the economic trends over the previous two years.

Figure 2: LCFS: Essential spending* by decile, after housing costs (AHC)



Source: SMF analysis of LCFS 2019-20 data. *Essential spending is defined as: food/groceries, water, energy, fuel, bus and rail travel, broadband, phone services, vehicle insurance, contents insurance and banking fees.

The rising cost of living

Recent cost of living pressures, especially on essential goods, have been well documented

- Since 2019, the economic situation has changed considerably with persistently higher inflation.
- Many people are currently struggling to afford essential items. The ONS found in spring 2023 that around 1 in 20 (5%) adults reported that in the past two weeks they had ran out of food and had been unable to afford more.¹
- This survey also found that in response to the rising cost of living:
 - 44% of people are cutting back on essential spending
 - 25% of people are using their savings
 - 15% are using credit, such as loans and overdrafts, more than usual
 - More than 4 in 10 adults are finding rent or mortgage payments difficult.
- Research from Citizens Advice found that the number of people across the country whose monthly income isn't enough to pay for their essentials has doubled in the last two years, from 1 in 20 to 1 in 10 UK households.²

1. ONS Cost of Living Insights: Food; 2023

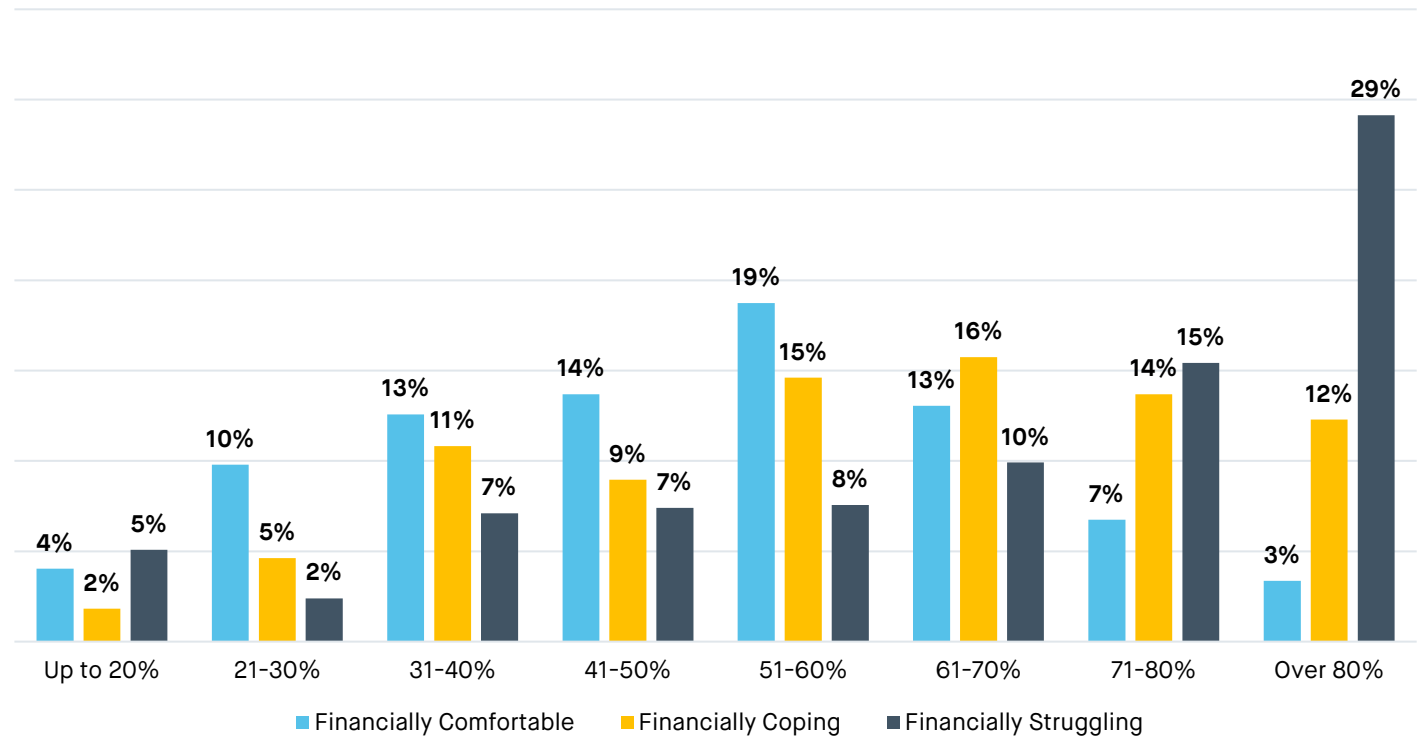
2. Citizens Advice: Living on Empty; 2023

Many people are struggling to access goods and services at affordable prices

Our polling shows many households spending a high proportion of their income on essentials

- Three-quarters (75%) of those defining themselves as ‘financially struggling’, said they found it difficult to afford their essentials on their income after housing costs.
- Overall, **over half said they spent more than half of their AHC household income on essentials.**
- **1 in 10 people reported spending over 80% of their AHC household income on essentials.** This rose to 29% for ‘financially struggling’ households.

Figure 3: 'What proportion of your household income (after housing costs) do you spend on essentials?'

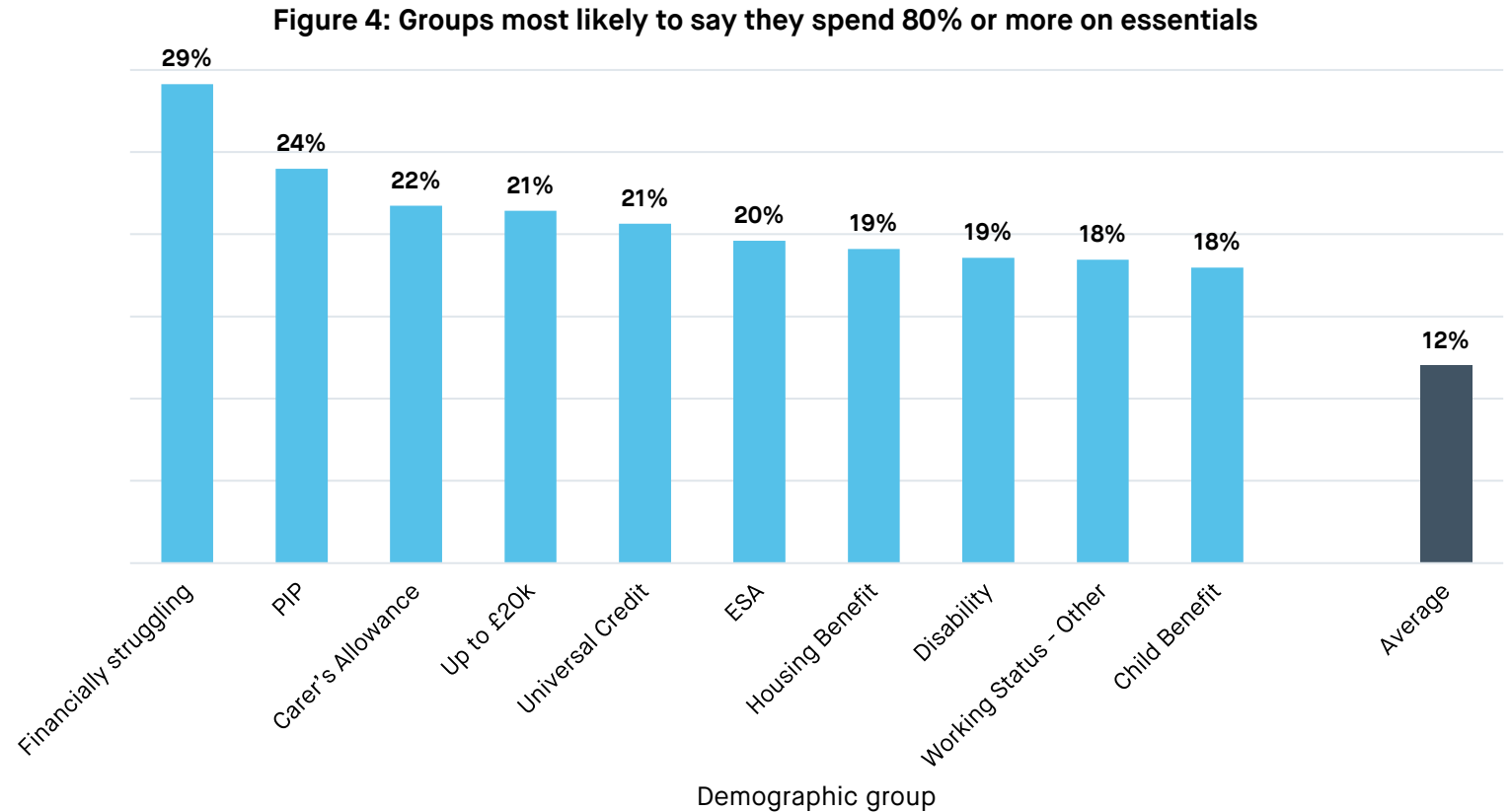


Source: Opinium survey. Base: 4,000 respondents.

Some groups struggle to afford essentials at much higher levels

Those claiming benefits, on low income, and with a disability are particularly struggling

- The chart shows the groups most likely to report spending 80% or more of their AHC income on essentials compared to the national average (in dark grey).
 - These groups (in blue) are at high risk of being in a negative budget/financial distress.
- Many of the groups claim benefits such as PIP, Carer's Allowance and UC.



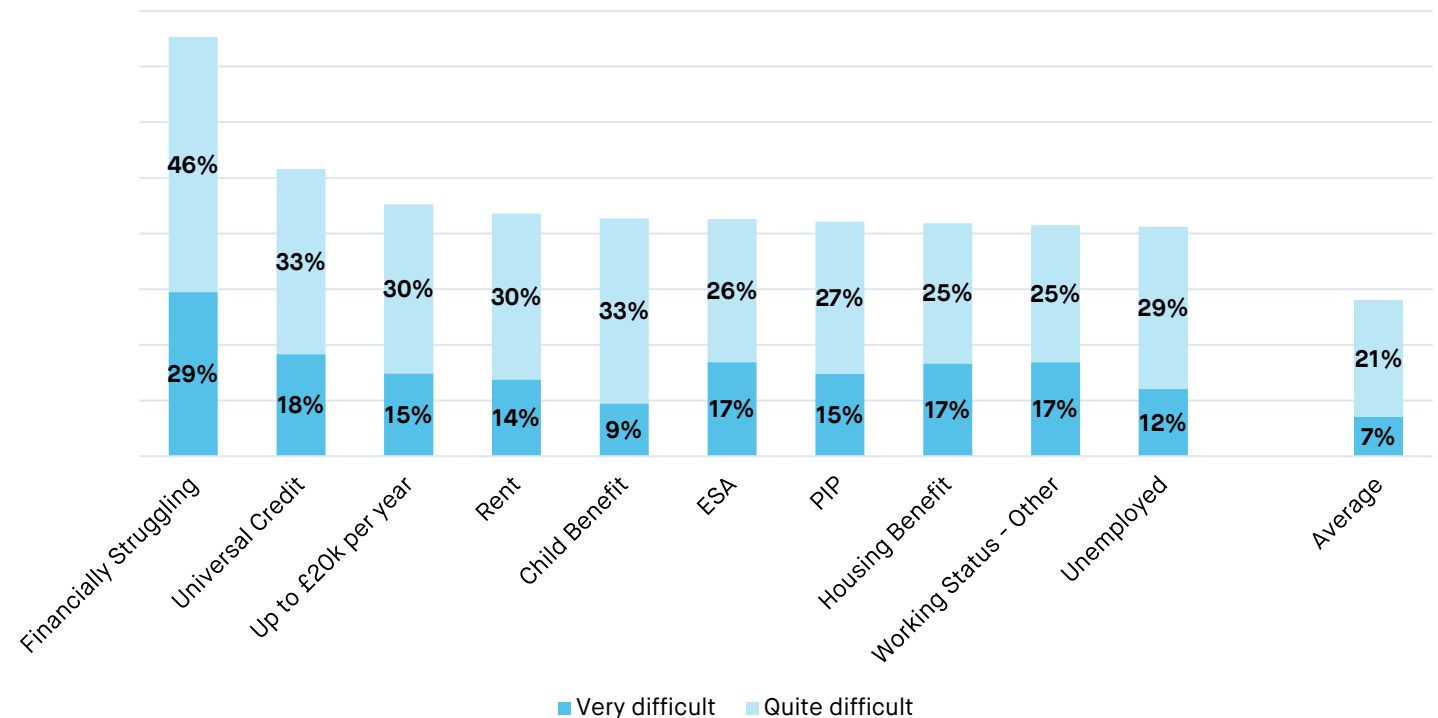
Source: Opinium survey. Base: 4,000 respondents.

A significant proportion of households struggle to afford essentials overall

This proportion is concerningly high among certain groups

- **Nearly 3 in 10 (28%) households say that affording essentials is ‘quite’ or ‘very’ difficult** for them.
- This proportion is higher among households claiming benefits and on a low income.
- The chart shows the groups which had the highest proportion reporting difficulty in affording essentials, compared to the national average.

Figure 5: 'How easy or difficult overall is it for your household to afford your essentials?'



Source: Opinium survey. Base: 4,000 respondents. Chart shows proportion of respondents who say affording essentials is 'Quite' or 'Very' difficult.

Some people have had to make tough choices to cut spending

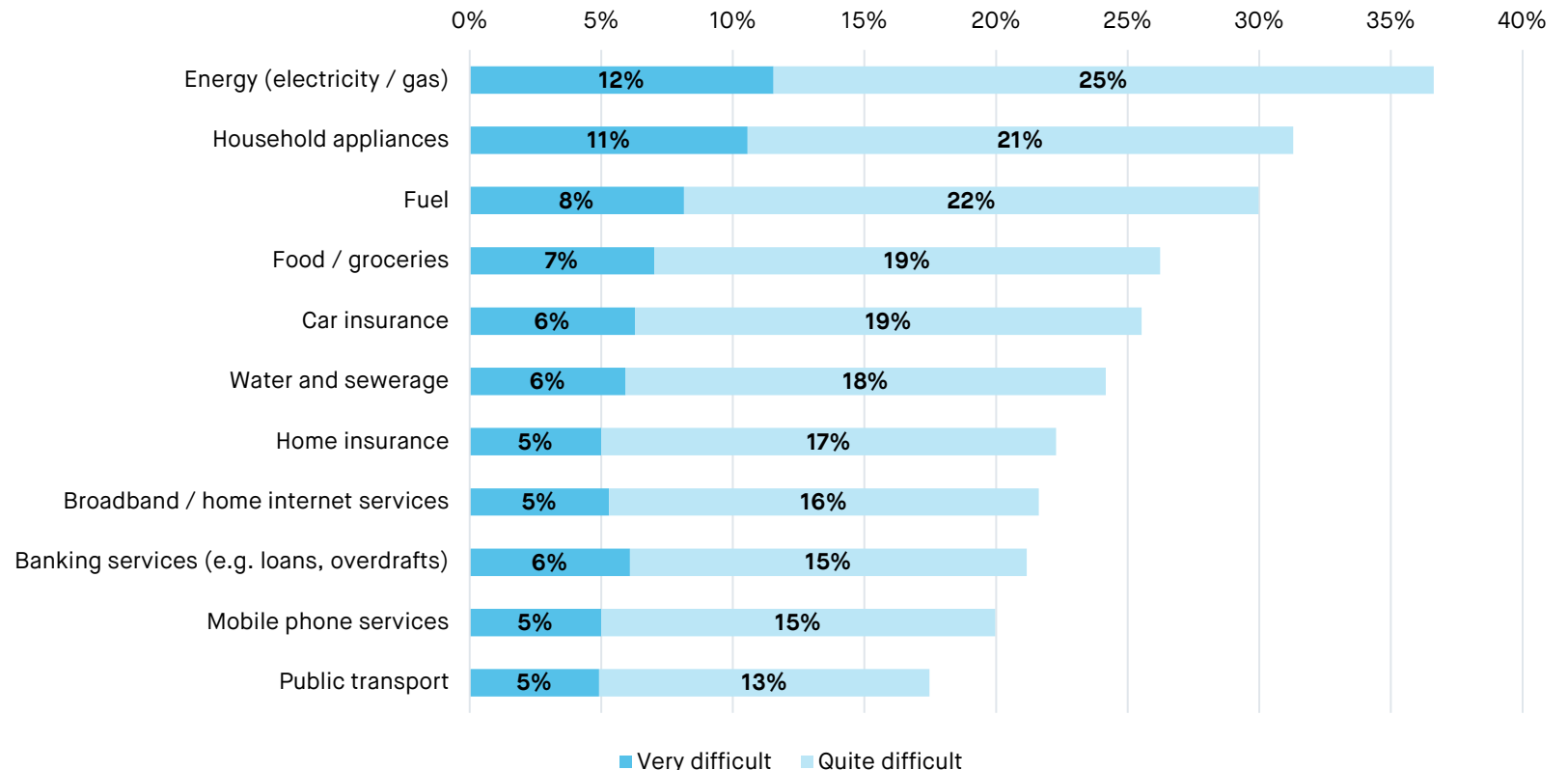
People on low incomes report their costs have increased faster than national statistics suggest

- In focus groups, participants described the difficulty of affording basics.
- Many reported reducing their spending:
 - **“It’s hard to put food on the table”**
 - **“I’ve been using community shops, local church and... food banks... electric [bills have] gone through the roof”**
 - **“It’s just really hard looking at your smart meter to see how much money you’ve got left in you know, over the winter... I found myself you know, turning the heating off when it [was] freezing... it shouldn’t be like that, you know, when you’re working full-time”**
- There was also a perception that inflation has been worse than national statistics suggest:
 - **“I don’t know where they’re getting this ‘Oh, [inflation has] gone up by 19%’ ... Sorry, what? What things have only gone up by 19%? Because I’m getting 100% here.”**

Affordability challenges are bigger in some markets than others

- Energy was seen as the least affordable good.
- White goods, fuel, car insurance and groceries were also difficult to afford.

Figure 6: 'How easy or difficult is it for your household to afford each of the goods and services you selected as essential?'



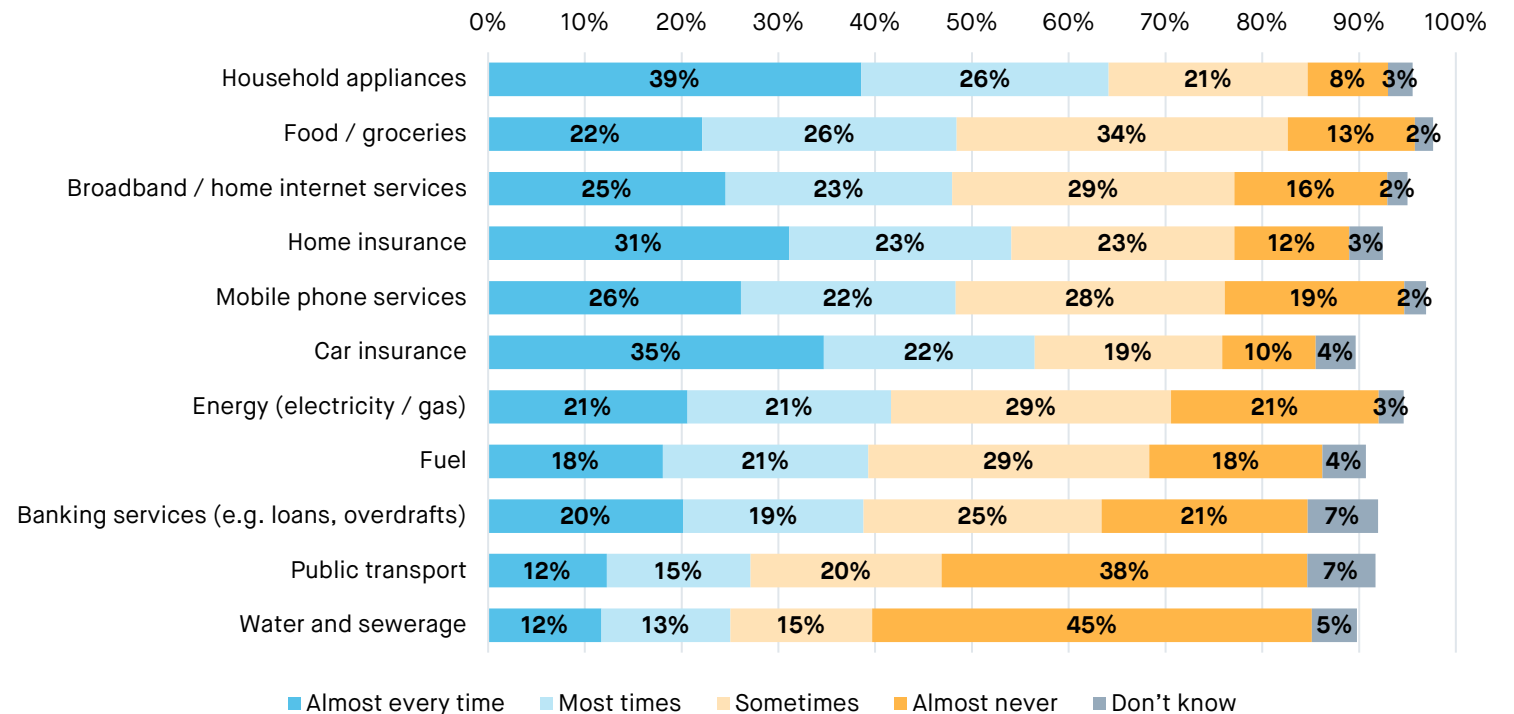
Source: Opinium survey. Base: energy - 3,871; household appliances - 3,815; fuel - 3,751; car insurance - 3,600; banking - 3,484; food - 3,887; water - 3,878; home insurance - 3,433; broadband - 3,616; public transport - 3,748; mobile phone services - 3,557.

The public are already ‘shopping around’ for better prices

The extent of this activity differs between different goods and groups of people

- **Most respondents said that they tend to shop around for essential goods.**
- As the income of respondents rises, so does their likelihood that they shop around for essentials.
- Admittedly these may be slight overestimates, given the relatively high response we see for shopping around in water, where customers have little or no choice to shop around.

Figure 7: ‘For each of the following goods/services you selected as essential, how often do you tend to ‘shop around’ for better prices when you buy them?’



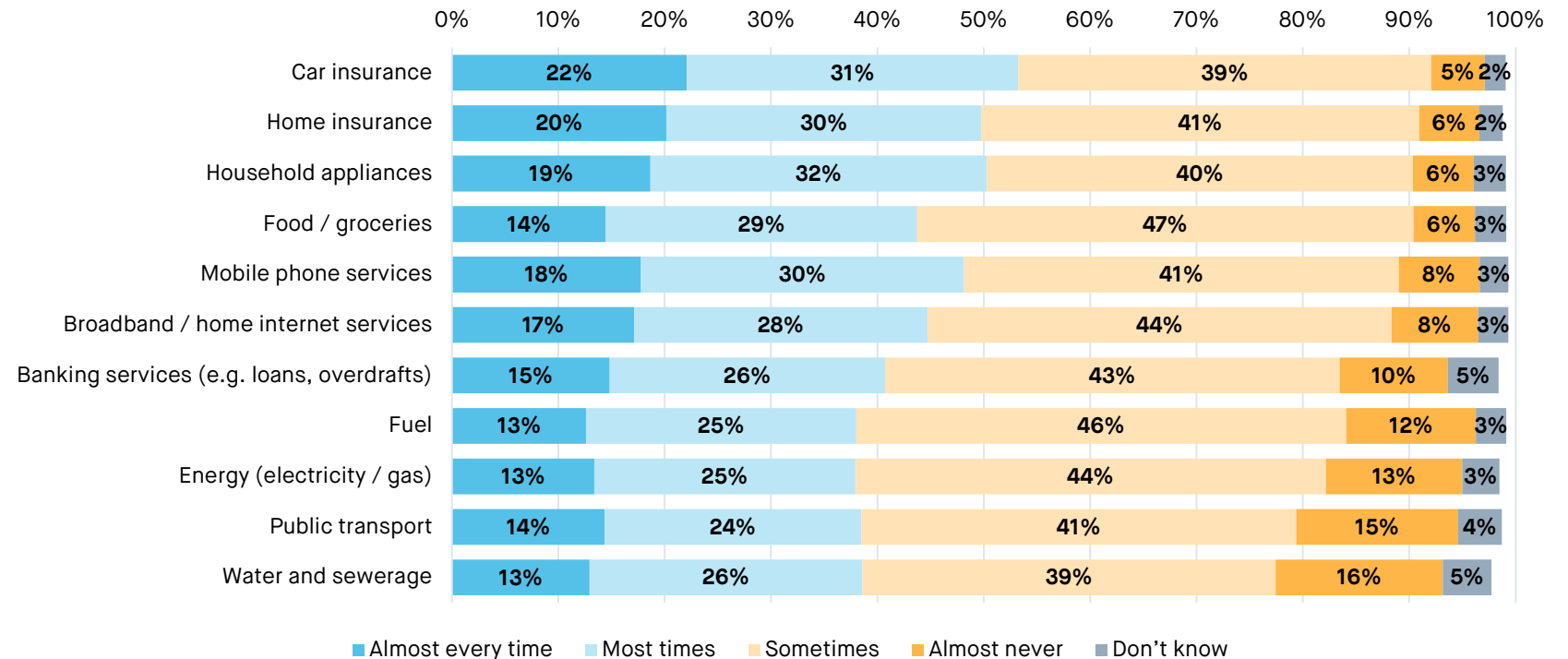
Source: Opinium survey. Base: household appliances – 3,815; food – 3,887; broadband – 3,616; home insurance – 3,433; phone services – 3,557; car insurance – 3,600; energy – 3,871; fuel – 3,751; banking services – 3,484; public transport – 3,748; water – 3,878. Excludes ‘N/A – I am not the one who makes this decision’ responses.

The majority of people tend to succeed in getting better prices...

This holds true across almost all goods we polled

- **Around 80-90% of people succeed in getting better prices** at least some of the time, across most goods.

Figure 8: 'When you have 'shopped around', have you tended to succeed in getting better prices than if you hadn't 'shopped around' or not?'



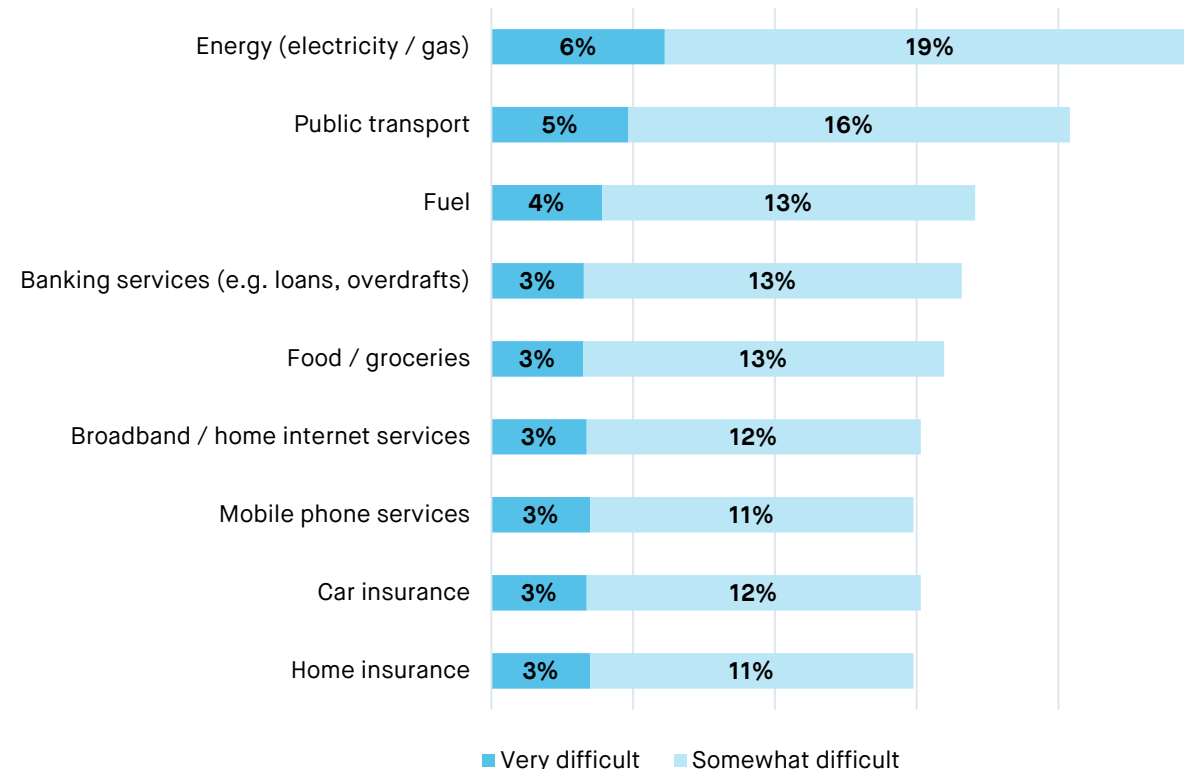
Source: Opinium survey. Base: car insurance – 2,748; home insurance – 2,663; household appliances – 3,244; food/groceries – 3,218; phone services – 2,707; broadband – 2,780; banking services – 2,198; fuel – 2,566; energy – 2,744; public transport – 1,735; water – 1,504. Excludes 'N/A – I am not the one who makes this decision' responses.

...But the process of shopping around isn't easy for everyone

Some groups find the process of looking for deals more difficult to navigate

- We asked people who said they had shopped around for a good or service how easy they found the process.
- For each item, more people said they found the process easy than found it difficult.
- However, **between 1 in 7 and 1 in 5 people who shopped around found the process difficult.**
- Those on low incomes and financially struggling were more likely than average to report finding shopping around difficult.

Figure 9: 'How easy was it to shop around for this?'



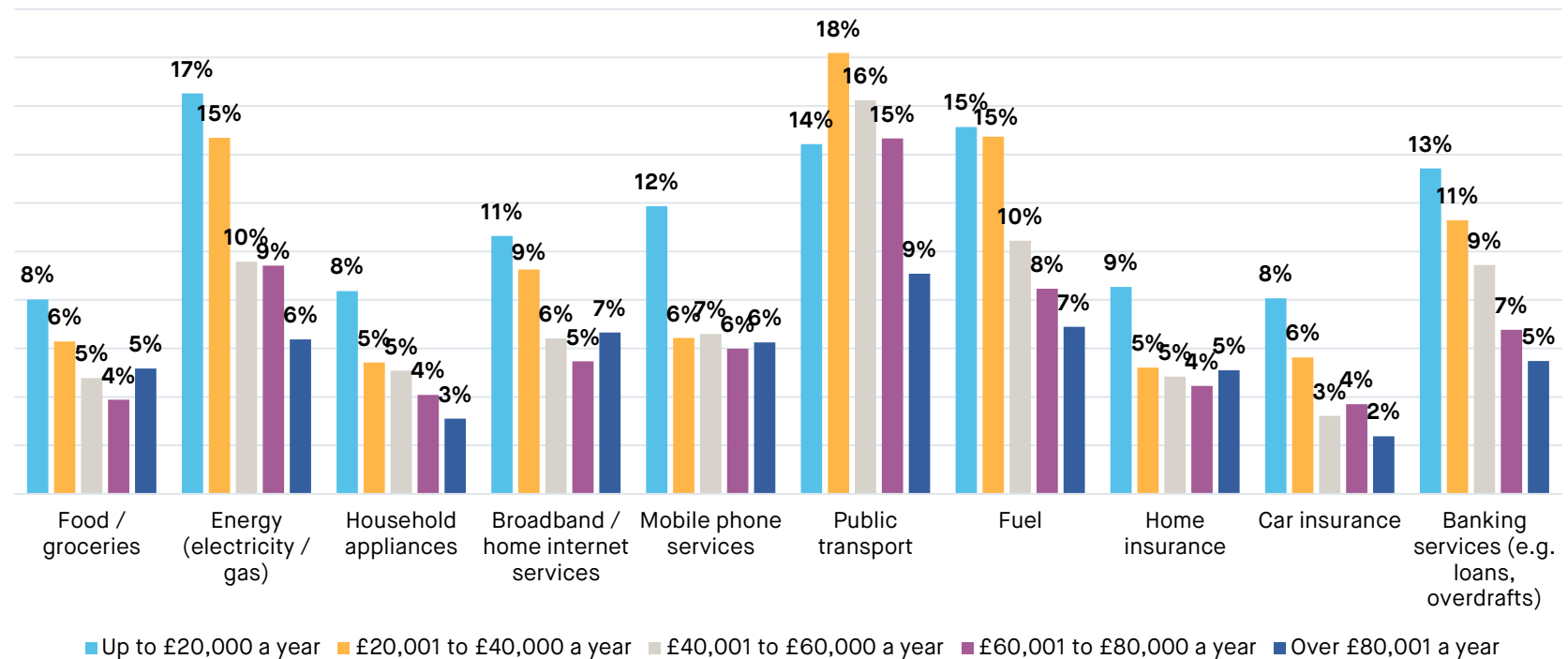
Source: Opinium survey. Base: 2,748 for car insurance; 2,663 for home insurance; 2,707 for phone services; 2,780 for broadband; 3,218 for food; 2,198 for banking; 2,567 for fuel; 2,744 for energy; 1,759 for public transport. Water excluded.

Shopping around is not as effective for lower income groups

For many, shopping around does not translate to better deals

- People on lower incomes are more likely to say they could not find better prices when they shopped around.
- In some goods such as energy, phone and broadband, 10% or more of people earning less than £20,000 reported this.

Figure 10: Proportion saying they 'almost never' find better prices when shopping around by income group



Source: Opinium survey. Base: food/groceries – 3,218; energy – 2,744; household appliances – 3,244; broadband – 2,780; phone services – 2,707; public transport – 1,735; fuel – 2,566; home insurance – 2,663; car insurance – 2,748; banking services – 2,198. Excludes water and 'N/A – I am not the one who makes this decision' responses.

Shopping around on its own does not solve the affordability crisis

Despite shopping around, many still find the items they shop for very difficult to afford

- The table opposite shows the proportion of people broken down by income groups who said **both** that they shop around for a particular item **and** that they find that item 'very' difficult to afford.
- For a substantial portion of people on lower incomes, shopping around for something does not guarantee easily affordable access to it.**

Table 1: Proportion of people answering they shop around for an item AND that they find that item 'very' difficult to afford

Income	Food/ groceries	Energy (electricity / gas)	Water and sewerage	Household appliances	Broadband / home internet services	Mobile phone services	Public transport	Fuel	Home insurance	Car insurance	Banking services (e.g. loans, overdrafts)
Up to £10k	11.2%	14.9%	7.7%	16.2%	9.3%	7.6%	3.8%	8.8%	3.9%	5.5%	6.2%
£10k-£20k	9.9%	12.7%	4.7%	16.9%	6.8%	6.2%	4.1%	9.1%	5.4%	7.1%	6.8%
£20k-£30k	6.0%	8.1%	3.4%	8.2%	3.9%	3.0%	2.4%	6.6%	3.5%	5.7%	4.3%
£30k-£40k	4.4%	7.6%	2.6%	7.2%	2.9%	2.9%	2.3%	6.5%	2.3%	3.1%	3.5%
£40k-£50k	2.7%	5.1%	2.4%	4.8%	2.1%	2.5%	2.3%	4.0%	2.1%	2.3%	2.6%
£50k-£60k	3.8%	4.7%	1.8%	5.4%	1.5%	1.9%	3.1%	3.0%	1.2%	1.8%	2.2%
£60k-£70k	2.1%	5.8%	1.7%	4.9%	1.4%	2.2%	1.5%	3.1%	1.0%	2.1%	1.0%
£70k-£80k	1.9%	2.2%	1.1%	5.2%	2.7%	2.5%	1.1%	2.6%	2.6%	5.0%	3.1%
Over £80k	0.8%	1.3%	0.5%	1.5%	0.8%	1.0%	0.5%	0.2%	0.8%	1.2%	0.7%

Source: Opinium survey. Base: Up to £10k – 251; £10k-£20k – 706; £20k-30k – 709; £30k-40k – 546; £40k-50k – 406; £50k – £60k – 247; £60k-£70k – 186; £70k-£80k – 119; Over £80k – 355

Many people have doubts about shopping around

Some people do not think that markets are fair, regardless of the options for switching

- In our focus groups, several participants expressed scepticism that businesses were passing on wholesale cost reductions to consumers.
 - “[Supermarkets] were blaming transportation costs as part of [fuel prices] going up plus the war in Ukraine. But now... when petrol started coming down in price wholesale, the petrol [pump prices] didn't come down correspondingly”
 - “At the moment, **I think supermarkets are artificially inflating some prices**”
 - “[Supermarkets] have their club card only prices stuff... And you look at it, and they just put the price up massively for non club card holders [and] have it the same as it was before for being a cardholder... It's **just performative stuff**”
- These quotes underline a belief expressed in our focus groups that markets are in some way ‘rigged’ or unfair, and that shopping around on its own is not sufficient to find affordable prices.

Assessing the case for social tariffs

Could social tariffs be a solution to ensure everyone can access essentials?

Strategies to address the cost of living

There are two potential ways to make it easier for low-income households to afford essentials:

1. **Increase the incomes of poorer households** (e.g. through the benefits system)
2. **Decrease the cost of the essential goods and services they purchase**

In this research, we focus on the latter as a potential solution to the issues around low-income households affording essentials.

What are social tariffs?

The theory behind them

- The term ‘social tariff’ can have a broad meaning. Throughout this research, we refer to social tariffs as discounts on products sold in free markets granted to certain consumers who meet some form of eligibility criteria, typically based on disadvantage or vulnerability.
- Social tariffs are often thought of as targeted towards consumers who are on a low income. But they can also be aimed at people based on other characteristics (e.g. disability, age, caring responsibilities, etc.).
- Social tariffs can be seen as a form of price discrimination, where firms charge different prices to different groups of consumers.

Examples of social tariffs

There are a number of social tariffs operating in different markets in the UK and abroad

- In the UK, most social tariffs currently are administered by private companies on a voluntary basis:
 - **In 2022, DCMS and Ofcom encouraged all broadband providers to introduce a social tariff for low-income consumers** (eligibility is based on being in receipt of Universal Credit). Ofcom pursued a voluntary approach, with over 20 providers now supplying social tariffs to customers, although prices and internet speeds vary from package to package.
 - **Every water company in the UK offers a social tariff, but the eligibility and level of support varies** between different regional companies. The WaterSure scheme is also available to certain consumers on water meters and is based on income and essential water use.
- There are examples of the concept in other markets too. The Warm Homes Discount can be seen as a form of social tariff for energy, and there are social tariffs for public transport fares (Germany) and for supermarket groceries (Spain). The UK's own 16-25 Railcard can be viewed as a social tariff for train fares based on age.

Social tariffs so far

Awareness is needed to drive further take-up

- In 2023, it was estimated that of the 4.3 million households eligible for a broadband social tariff, only 220,000 (5.1%) have signed up to one.¹
- **Our polling suggests that a third of Universal Credit recipients haven't heard of social tariffs for broadband**, and around a fifth of UC recipients thought that they are not eligible for one. Overall:
 - A majority (58%) have heard of social tariffs for broadband.
 - A significant minority (44%) were aware of social tariffs for water.
- Our focus groups highlighted that many feel companies do not take a proactive approach to making people aware of social tariffs:
 - *“They're not really advertising or [pushing social tariffs to] people in poverty [who] really need it”*
 - *“And **there isn't a great deal of broadcasting of what's available to people** and then when you are aware of it, you have to jump through so many hoops to get something”*

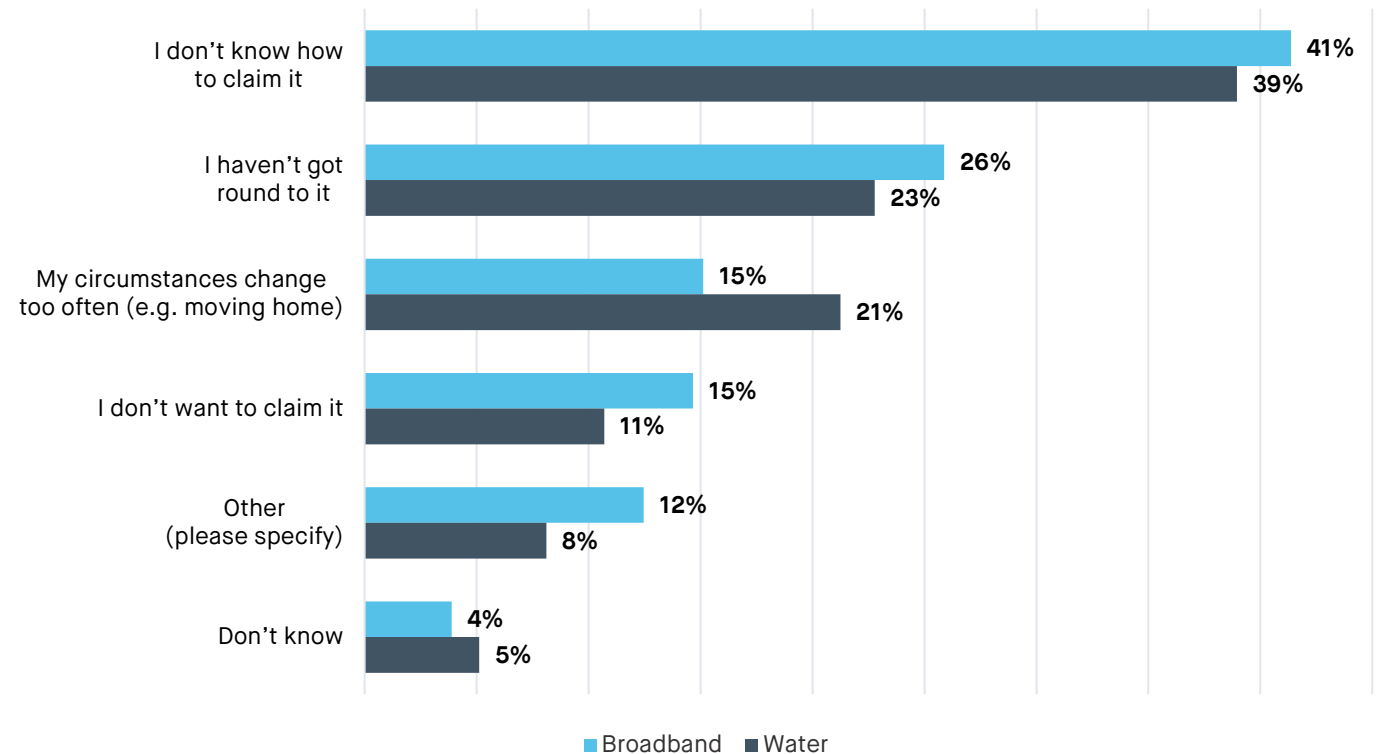
1. Ofcom: Affordability of communications services, 2023

Social tariffs so far

There are some informational and attitudinal barriers to social tariffs take-up

- In our polling, **two-fifths of those not claiming social tariffs, despite being eligible, said they did not claim because they did not know how.**
- There is also **a perception that social tariffs deliver a lower level of service** than normal tariffs. This came through in our focus groups:
 - *“The service that you get isn't as good... And it's kind of more of a basic kind of plan... when it comes to broadband.”*
 - *“Speeds are lower [on a social tariff]”*

Figure 10: ‘You said you qualify for a social tariff in broadband/water but don’t do so. Is this for any of the following reasons? Please select all that apply.’



Source: Opinium survey. Base: broadband – 697; water – 592

Social tariffs so far

The targeting of existing social tariffs means some are falling through the cracks

- Many people have expressed frustration with the ‘postcode lottery’, especially in water social tariffs, with people in different areas of the country receiving different levels of support.
- Another concern relates to the **effective targeting of support**, with the possibility that people may be falling through the cracks.
 - National Energy Action has highlighted the experience of a household with three children in receipt of tax credits, making them eligible for WaterSure, but who live in a block of flats which cannot be metered and earn too much to qualify for their company’s social tariff scheme. As such they have no support available despite their outgoings placing them into a negative budget.
- LCFS data points to the potential scale of the take-up gap. **There are around 1.1 million households in the bottom income quintile who do not receive any income from benefits.** Many social tariffs use receipt of benefits as the only eligibility criterion, meaning these households miss out on support.

The effectiveness of current support

Households do not think there is currently enough support to help with the cost of living.

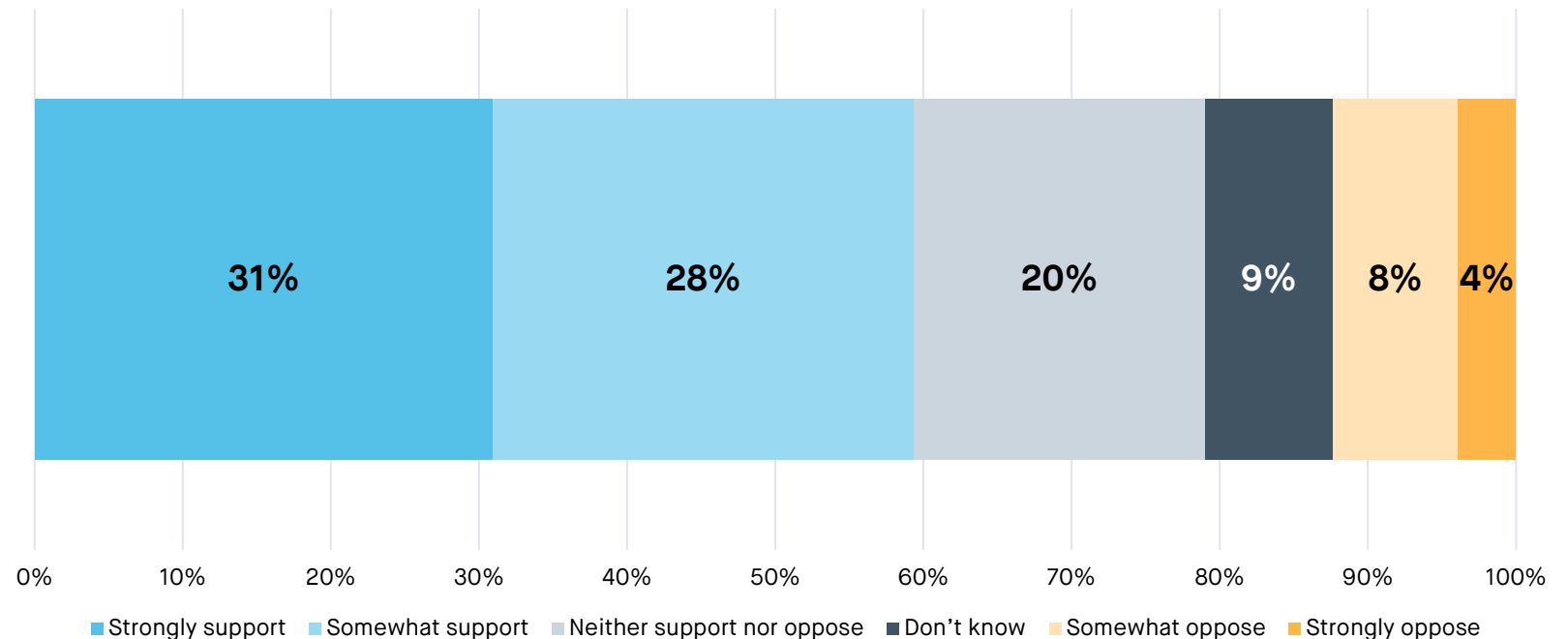
- **A majority (52%) of people think that there isn't enough support to help struggling households afford essentials** overall. Four-fifths of people self-defined as 'struggling' financially said there is not enough support.
- Focus group discussions have indicated that those on social tariffs have had positive experiences of them so far:
 - *“What's not to like”*
 - *“If you're on benefits, you may not have the time to look for the best prices”*
 - *“Social tariffs are great – but they shouldn't be needed in the first place”*

The potential for further social tariffs

There is broad support for the idea of social tariffs

- **59% support** the idea that certain households should be given discounted rates for essential goods and services, whilst 12% oppose.
- Support was broad based: **in all demographic groups, a similar proportion of respondents expressed support for the idea.**

Figure 11: 'To what extent do you support or oppose the idea that certain households should be given discounted rates for essential goods and services (known as a 'social tariff')?'



Source: Opinium survey. Base: 4,000 respondents.

Next steps

Designing new interventions

The final stage of this project

- This publication has assessed the need for more intervention on the cost of living. It has summarised the case for, and effectiveness of, current social tariffs.
- The next part of the project will build on this analysis to design new interventions for the cost of living.
- In addition to the methods we have already employed, we will:
 - **Host a roundtable** of policy experts and industry bodies.
 - **Conduct an additional focus group** with people on low incomes.
 - **Conduct modelling** of the LCFS to test different policy designs and estimate impacts.
- We plan to publish the final report in late September 2023.