

# Current impact and future potential of broadband social tariffs: a discussion paper from Citizens Advice.



# 1. Summary

A broadband connection is essential to participate fully in our society, but millions of households are struggling to afford this essential service. And as the cost of living crisis continues to bite, there's nothing left to cut for many low income households.

The Department for Digital, Culture, Media and Sport (DCMS) and Ofcom have urged all broadband providers to introduce discounted social tariffs for low income customers. A majority of the industry has responded, and 10 fixed broadband providers now offer a social tariff to their customers.

In this discussion paper we consider how effective the introduction of broadband social tariffs has been in reducing broadband affordability issues so far, before setting out a number of options which could help to improve their efficacy in the future.

**Sections 2 and 3 set out the scale of the broadband affordability challenge and summarise the steps taken to tackle these issues so far**, including the introduction of social tariffs.

**In section 4 we consider how well broadband social tariffs perform against 3 key tests.** Considering the policy aim of social tariffs, they should:

1. Be available to all eligible households across the UK
2. Be effectively targeted and affordable for low income households
3. Have high rates of take up amongst eligible households

We find that broadband social tariffs currently perform relatively well against tests 1 and 2 - 96% of eligible households are able to access a social tariff. And each of the broadband providers that currently offer a social tariff have set relatively broad eligibility criteria, with an average discount of £12 a month compared to the average bill of households in receipt of Universal Credit.<sup>1</sup>

However, discounted social tariffs run counter to the economic incentives of the providers which offer them, and the lack of regulatory underpinning for these tariffs means there's a risk that existing social tariffs could be watered down, or even removed over time.

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<sup>1</sup> Ofcom, [Summary of research findings and update on availability and take-up of broadband social tariffs](#), 15 February 2022, Table 5. Note: these figures were reported before Vodafone launched its social tariff on 19 October.

In addition, while the level of discount currently offered will provide welcome support for households who are just about managing, it will not be sufficient to make broadband affordable for those on the lowest incomes.

The most immediate cause for concern is in relation to test number 3 - at 3.2%, take up remains disappointingly, and stubbornly low.<sup>2</sup> Social tariffs will only have a meaningful impact on broadband affordability if a significant proportion of eligible households take them up.

**In section 5 we trace the evolution of social tariffs in the energy and water sectors**, where social tariffs have existed in some form for over a decade, and identify some broad lessons which may usefully be applied in the development of broadband social tariffs:

- Voluntary schemes leave consumers facing a lottery of support.
- Automated processes lead to higher rates of take-up
- A regulated social tariff with risk-sharing levels the playing field for providers.

**In section 6 we return to our 3 tests, setting out a series of options which could help to make broadband social tariffs more effective in the short term.**

***Improving and securing the availability of social tariffs - options include:***

- *Broadband providers who do not currently offer a social tariff should take immediate steps to introduce one. Ofcom and DCMS should continue to encourage them to do so both publicly and in private.*
- *Ofcom could more explicitly set out what it believes to be the optimum social tariff and encourage providers to bring their social tariffs in line with its recommendation.*

***Ensuring social tariffs are well-targeted and affordable - options include:***

- *Reducing Openreach costs - DCMS and Ofcom could explore the role Openreach could play in further reducing the cost of social tariffs. For example, the company could reduce the cost of line rental for social tariffs connections.*
- *Offering Government-issued vouchers to reduce costs further for those on the lowest incomes.*
- *Cutting VAT on broadband bills.*

***Increasing take up rates - options include:***

- *Industry could take a more proactive and creative approach to advertising social tariffs.*
- *DCMS, Ofcom and Industry could launch a joint awareness raising campaign.*

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<sup>2</sup> Ofcom, [Affordability of Communications Services - September 2022 update](#), p7.

- *Removing exit fees for switching to social tariffs.*
- *Removing friction from the switching process.*

**Finally, we take a longer term view, setting out the potential benefits which could be gained by pursuing a regulated approach to social tariffs, including:**

***The opportunity to create a uniform social tariff.*** Requiring firms to have a more standardised social tariff offering would remove the confusing patchwork of different deals, and eliminate the need for customers to “shop around”. It would also ensure all eligible households across the UK received a consistent level of support. And in the long-term, it would protect against social tariffs being watered down or removed.

***Levelling the playing field for broadband providers.*** Unlike voluntary guidance, regulatory requirements would mean *all* firms would need to offer a social tariff meeting certain standards. This would level the playing field between firms, spreading financial risk and removing any competitive advantage from firms that don't have a high-quality social tariff.

***Scope for a wider variety of funding options and risk-sharing.*** A regulated social tariff would allow for a more formal reconciliation process, meaning costs could be shared across the industry. It would also open up additional funding options - including a contribution from Openreach, Government funding, or a combination of different sources. This would help keep the price of a social tariff sustainable for industry and affordable for customers.

**We look forward to discussing the analysis and options contained in this paper with Government, Ofcom, industry and other interested organisations and agreeing a plan of action to ensure that low income households are able to access the support they need to afford their broadband bills.**

## 2. Broadband affordability problems are significant and increasing

A reliable internet connection is a portal to work opportunities, learning resources, e-retail, entertainment and socialising with friends and family. The Covid-19 pandemic reinforced broadband's status as an essential service, with more people than ever relying on the internet to work, study and connect to loved ones. It also shone a light on long-standing issues around affordability, and the harm people face if they can't pay for broadband.

A significant and growing number of people aren't able to afford this essential service. And people who struggle to pay for broadband face a difficult choice. They either have to go without internet access or cut back their spending on other essentials to keep connected. In April 2022, 1 in 8 people said they had cut back on essentials (e.g. food and clothes) in the previous month to pay for services like mobile and broadband.<sup>3</sup> In July 2022 this had jumped to 1 in 7.<sup>4</sup> This trade off between essential services goes both ways, with people cutting back on access to communications services to pay for other essentials. 1 in 10 have had to reduce the amount they spend on communication services because they could no longer afford them.<sup>5</sup>



**Kelly is a single parent with 3 children and lost her job 6 months ago. Her food and energy costs are increasing and she has just 62p credit to pay for gas and electricity. This means she can't afford to pay for broadband. Kelly is searching for jobs but not having internet access makes this more difficult as she can't use email. She has to use post or phone instead, and is now paying more for phone calls as a result.**

The cost of living crisis is making a bad situation worse. As steep price increases across the board continue to bite, the number of people behind on their broadband bill is rising.

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<sup>3</sup> Ofcom, [Communications Affordability Tracker](#), 13 May 2022, COM14.

<sup>4</sup> Ofcom, [Communications Affordability Tracker](#), 8 August 2022, COM14.

<sup>5</sup> Ofcom, [Communications Affordability Tracker](#), 8 August 2022, COM10.

- Citizens Advice estimates that 4.2 million adults were behind on their broadband bill in July 2022<sup>6</sup>, up from 2.5 million in spring 2021.<sup>7</sup>
- Views of our web advice for what to do if you're struggling to pay telecom bills were 45% higher this August than the same month last year.<sup>8</sup>
- Citizens Advice's 'In the Red Index' shows a big increase in the proportion of debt clients who have negative income, meaning they have more essential spending going out than income coming in.<sup>9</sup>
- And our cost of living dashboard shows that we've provided crisis support to over 155,000 clients this year.<sup>10</sup> By August 2022 we'd already seen more clients about crisis support than in the whole of 2021.

Household bills are rising faster than incomes across the board. Many broadband consumers were hit by above inflation price increases earlier this year,<sup>11</sup> and multiple firms are likely to apply mid contract price rises of up to CPI plus 3.9% early next year. We estimate average broadband bills could rise by an average of £65.50 next year.<sup>12</sup> Even before these latest increases, low-income households spent a significant proportion of their disposable income on broadband bills. Ofcom data from 2020 estimated that a non-working household claiming Universal Credit spent 8.3% of disposable income on broadband, compared to only 1.3% for an average household.<sup>13</sup>

For many low income households there's nothing left to cut. Large increases in energy and food bills are having a knock on effect, making it much harder for poorer households to afford a good broadband connection at home. It is clear that broadband affordability is a significant and growing issue. In the following section we outline the measures Government, Ofcom and industry have already taken to address this issue.

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<sup>6</sup> Citizens Advice, Based on analysis of a representative survey of 6,000 adults (18+) in the UK conducted by ICM Unlimited for Citizens Advice. Fieldwork conducted between 27 May to 20 June 2022.

<sup>7</sup> Citizens Advice, [2.5 million people are behind on their broadband bills](#), 4 June 2021.

<sup>8</sup> Citizens Advice, [If you're struggling to pay your mobile, phone, internet or TV bill](#).

<sup>9</sup> Citizens Advice, [In the red index](#).

<sup>10</sup> Citizens Advice, [Cost of living dashboard](#).

<sup>11</sup> Ofcom, [Affordability of Communications Services](#), 15 February 2022, para 4.17

<sup>12</sup> Citizens Advice, [Mid-contract price rises: tightening the squeeze on consumers](#), 22 Sept 2022.

<sup>13</sup> Ofcom, [Affordability of Communications Services](#), 15 February 2022, Table 5

### 3. Measures to address broadband affordability to date

As broadband affordability rose up the policy agenda during the Covid-19 pandemic, Government, Ofcom and individual companies stepped up to support consumers. Short-term voluntary measures were agreed to help keep people connected through the pandemic.<sup>14</sup> This included working with customers struggling to afford their bills, and enhancing mobile and landline tariffs with low-cost data boosts or free calls. These measures were a lifeline to many.

#### **Individual broadband firms have introduced social tariffs**

One of the key measures pushed during this time was to encourage broadband providers to introduce social tariffs - discounted tariffs targeted at low income households.

The European Electronic Communications Code, fully implemented in the UK in December 2020, gave Ofcom, subject to the agreement of DCMS, the power to compel all broadband companies to introduce social tariffs for the first time.

However, DCMS decided to pursue a voluntary approach, arguing that it would deliver results more quickly, and that it didn't want to stifle innovation and competition by being too prescriptive about the form the tariffs should take. DCMS did however make it clear that it would pursue a regulated approach if companies didn't respond.

Ofcom has also played an active role in pushing for the introduction of social tariffs in the market, starting with a full review of the need for, and merits of, social tariffs in 2020.<sup>15</sup> Since then the regulator has continued to apply pressure on industry to introduce social tariffs.<sup>16</sup>

The majority of the broadband industry has responded - 10 fixed broadband providers now offer a broadband social tariff to their customers, ranging in price from £12 a month to £25 a month. This is a significant increase on the 2 tariffs previously

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<sup>14</sup> Gov.uk, [Government agrees measures with telecoms companies to support vulnerable consumers through COVID-19](#), 29 March 2020.

<sup>15</sup> Ofcom, [Making sure customers are treated fairly](#), 9 January 2020

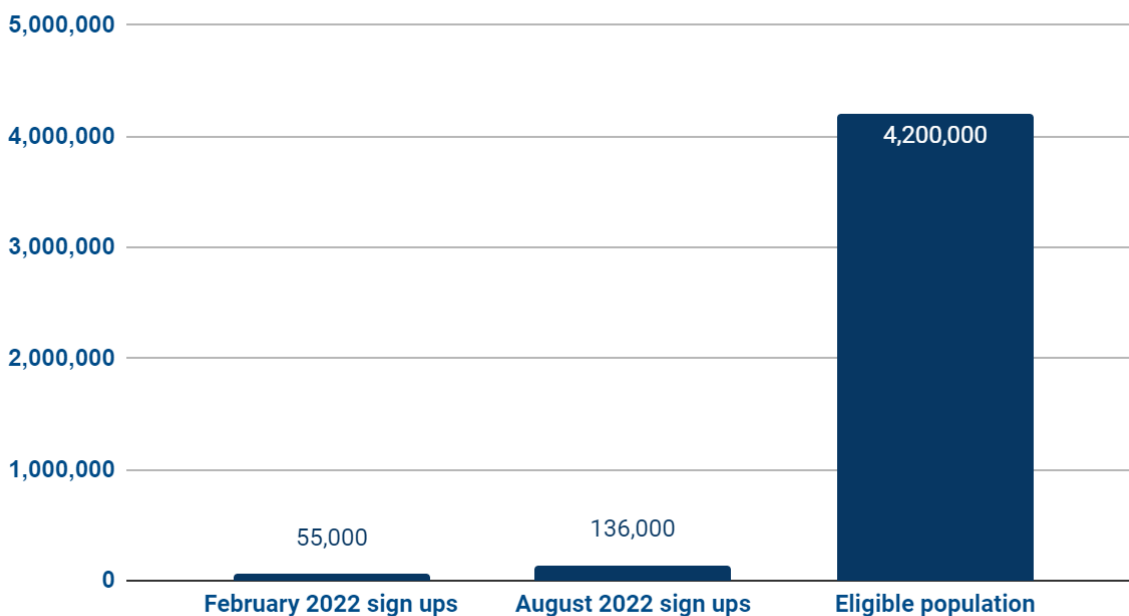
<sup>16</sup> , Ofcom, [Fairness for Customers commitments](#), 7 May 2021, and Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p8.

introduced by BT and KCOM as the broadband Universal Service Obligation providers.<sup>17</sup> TalkTalk, which does not currently offer a social tariff, partnered with the Department for Work and Pensions (DWP) to offer 6 months' free broadband to jobseekers.

## Despite wide-spread availability, take-up remains extremely low

4.2 million households across the United Kingdom are now able to access a social tariff.<sup>18</sup> But take-up has been sluggish. The most recent available data from Ofcom, published in September 2022, estimated that only 136,000 eligible households had signed up to a social tariff as of August 2022.<sup>19</sup> That leaves 96.8% of eligible households missing out on average savings of £144 a year.

### Social tariff eligibility and sign-ups



Social tariffs will only have a meaningful impact on broadband affordability if a significant proportion of eligible households take them up. In the following section we set out 3 tests for the success of broadband social tariffs, alongside an assessment of the extent to which existing tariffs are meeting these tests.

<sup>17</sup> These providers are: Air Broadband, BT, Country Connect, G. Network, Hyperoptic, KCOM, NOW, Sky, Virgin Media. VOXI offers a £10/mth mobile broadband tariff for those receiving certain benefits. Ofcom, [Cheaper broadband and phone packages](#).

<sup>18</sup> Ofcom uses recipients of Universal Credit as a proxy for eligible consumers for a social tariff. Many providers include a wider eligibility criteria though, so the actual number of eligible customers will be higher than 4.2 million households.

<sup>19</sup> Ofcom, [Affordability of Communications Services - September 2022 update](#), p7.



## 4. Evaluating the efficacy of broadband social tariffs

96% of UK households now have access to a broadband social tariff, either with their existing provider or by switching to another provider operating in their area, but the existence of these tariffs alone is not sufficient to tackle growing affordability issues in the market. Considering the policy aim of social tariffs - to reduce broadband affordability issues for low income households - there are 3 tests which can usefully be applied to assess how effective the introduction of social tariffs has been so far.

Social tariffs should:

1. Be available to all eligible households across the UK
2. Be effectively targeted and affordable for low income households
3. Have high rates of take up amongst eligible households

In this section we consider the extent to which the current social tariffs scheme meets each of these tests.

### 1. Available to all eligible households across the UK

Currently broadband social tariffs meet this test fairly comprehensively. As outlined above, 10 fixed broadband providers now offer a social tariff. Ofcom estimates around 75% of eligible households are able to access a social tariff with their existing fixed broadband provider, rising to 96% of households being able to access a social tariff with at least one broadband provider operating in their area.<sup>20</sup>

While Ofcom encourages providers to offer social tariffs, it hasn't set out what these tariffs should look like or how it will judge their effectiveness. This has led to some variation in the price, speed and eligibility criteria of these tariffs. For example, only 2 providers include Personal Independence Payment (PIP) on the list of eligible benefits.<sup>21</sup> As a result, some low income households might have to pay more, experience a lower speed or might not be eligible for a social tariff at all, depending on which broadband providers operate in their area.

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<sup>20</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p8. 96% access is based on superfast coverage. Ofcom states that at decent broadband connectivity (defined as 10Mbit/s in the broadband universal service obligation), coverage would be 99%. Note: these figures were reported before Vodafone launched its social tariff on 19 October

<sup>21</sup> [Hyperoptic](#) and [Vodafone](#) have listed PIP as an eligible benefit.

The lack of regulatory underpinning for broadband social tariffs also means there's a risk that coverage could reduce over time. At the moment, the regulator is relying on firms choosing to do the right thing for their customers, without regard to their commercial objectives. Providers make little or no profit on social tariffs, which means there's little or no economic incentive to compete for social tariff customers by providing high-quality, well-promoted deals. In fact, providing strong social tariffs with high levels of take-up can put firms at an economic disadvantage if high numbers of customers move to a less lucrative tariff - especially when some firms continue to choose not to offer any social tariff at all.

This increases the risk firms will dilute or even remove their social tariffs. And at the moment, there's nothing to prevent broadband providers who currently offer these tariffs from increasing the price, reducing speeds, narrowing eligibility criteria, or even withdrawing the product altogether.

## **2. Effectively targeted and affordable for low income households**

Deciding who should be eligible for broadband social tariffs and how much they should cost is not straightforward. It involves weighing up a number of different factors and making difficult trade offs. In an ideal world, the eligibility criteria would be very broad - maximising the number of households which benefit - *and* the price would be very low - maximising the impact on affordability issues for households which take them up.

However, social tariffs are not cost neutral. Any reduction in price for one group of customers means that broadband providers are forced to either accept a reduction in their revenue or, as is more often the case, pass on the cost to other customers by increasing the price of their other products. Unless all providers are required to offer a social tariff at a uniform price, this puts broadband providers with the lowest cost social tariffs and the broadest eligibility criteria at a competitive disadvantage.

While there is currently some degree of variance in the eligibility criteria set by broadband providers they have all set fairly broad criteria which encompass most, if not all, people in receipt of one or more means-tested benefits. Ofcom estimates that more than 4.2 million households in receipt of Universal Credit are currently eligible for a broadband social tariff.<sup>22</sup>

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<sup>22</sup> Ofcom, [Millions of low-income families missing out on £144 annual broadband saving](#), 15 February 2022.

This broad approach to eligibility is positive. Everyone in receipt of means-tested benefits have met the stringent income and capital criteria set by the government and are more likely than other households to require additional support with their bills, particularly as the cost of living continues to rise. The price of social tariffs currently varies from £12 to £25 per month, with a median price of £15 per month.<sup>23</sup> This represents a discount of £16 per month on the average household broadband spend. For households in receipt of Universal Credit, it represents a £12 reduction.<sup>24</sup>

This discount will provide welcome support for households who are just about managing. But the rapid and ongoing rises to the cost of food and energy bills have left disposable incomes plummeting for low-income households. Our research found that 3 in 10 people say they don't have enough money to cover their essential bills at least some months.<sup>25</sup> Those in receipt of Universal Credit are significantly more likely to say they don't always have enough left over with 5 in 10 saying so, compared to only 2 in 10 people not receiving Universal Credit.<sup>26</sup> This means they have little money left over to pay for broadband. And there's a risk that in the coming months, an increasing number of households will find that even £15 or £20 a month for broadband is unaffordable

For these households, a greater discount would be needed to make broadband truly affordable. Offering such a deep discount might mean that broadband providers would need to offer these tariffs at below what it currently costs to provide the service. Unless these tariffs were partially subsidised from another source, for example by the Government, these costs would most likely be passed on to other consumers.

It is also important to recognise that there is only so far that broadband social tariffs can go in helping to alleviate the cost of living crisis for low income households. Compared to many other essential household bills, for example energy and housing, the monthly cost of broadband is relatively low - particularly at the discounted social tariff rate. The cost of living crisis is so acute for some low income households that even £5 a month for broadband may be unaffordable.

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<sup>23</sup> Ofcom, [Cheaper broadband and phone packages](#), accessed 19 October 2022. Vodafone launched its Essentials Broadband package on 19 October 2022.

<sup>24</sup> Ofcom, [Summary of research findings and update on availability and take-up of broadband social tariffs](#), 15 February 2022, Table 5.

<sup>25</sup> Based on analysis of a representative survey of 6,000 adults (18+) in the UK conducted by ICM Unlimited for Citizens Advice. Fieldwork conducted between 27 May to 20 June 2022. Respondents were asked about the amount of money they have left after paying for essentials such as rent/mortgage payments, bills such as energy and water, food and toiletries. 28% said they can't cover these essentials at least some months.

<sup>26</sup> Research conducted by ICM Unlimited. 53% of respondents in receipt of Universal Credit said they can't cover essential spending at least some months, compared to 23% of those not in receipt of Universal Credit.

So while broadband social tariffs are an important and effective way to tackle broadband affordability issues for many households, they will never be enough to make broadband truly affordable for all. Social tariffs therefore need to be seen as one of a combination of measures needed to get additional support to, and lower costs across the board for, low income households.

### 3. High rates of take up amongst eligible households

Ofcom's most recent data shows that only 3.2% of eligible households have taken up a social tariff, leaving 4.2 million households missing out.<sup>27</sup> It would require a dramatic boost in sign-ups to ensure that a meaningful proportion of eligible households can benefit from these savings.

Ideally, take-up would be as close to 100% as possible, mirroring automated schemes such as the Warm Home Discount. This would make sure all eligible households benefit from the support available. It's worth noting that such a high level of take-up could have an impact on pricing for other consumers, so it's important to assess how to spread the cost burden among providers through risk-sharing and funding options. Achieving 100% take-up might not be possible. But a single-digit take-up rate, which leaves millions missing out on essential support, is clearly not acceptable.

There are a number of factors which could help to explain low take-up of social tariffs to date. Ofcom's recent research points to knowledge and perceptions around social tariffs, as well as the need for flexible tariffs and frictionless switching.<sup>28</sup> From this work and our experience of social tariffs and switching across essential services, the following factors give a useful indication of why take up is so poor.

- **Awareness is low.** While major providers have now made social tariffs available, the onus remains on the consumer to sign up. But a significant majority of people who receive benefits (69%) don't know social tariffs exist.<sup>29</sup>

And many firms aren't doing enough to make people aware that they could benefit from a social tariff. While some have initiatives to boost awareness - such as prompts on websites or making sure social tariffs appear on search engines when someone searches for low cost broadband - providers are still missing

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<sup>27</sup> Ofcom, [Affordability of Communications Services - September 2022 update](#), p7.

<sup>28</sup> Ofcom, [Affordability of Communications Services - September 2022 update](#), 29 September 2022.

<sup>29</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p11.

opportunities to direct eligible households to a social tariff. For example, social media promotion is patchy and firms don't appear to be proactively checking customers' eligibility for social tariffs.<sup>30</sup>

Providers have committed to do more to promote social tariffs as part of the voluntary commitments they agreed with DCMS to help support customers through the cost of living crisis.<sup>31</sup> This is a welcome development, but it is too early to assess how providers have put this commitment into action so far and the impact of any uptick in promotion activity on sign up rates.

- **Relying on people to switch doesn't work.** In 2018, Citizens Advice research showed that people pay a loyalty penalty when they don't engage with markets by switching.<sup>32</sup> And 4 years on, we've found that 7 million people are still paying a loyalty penalty for their broadband, costing each person an average of £61 per year. Of those who pay a loyalty penalty across the broadband, mobile and mortgage markets, almost 1 in 5 (18%) said it's too difficult or time consuming to switch.<sup>33</sup>

And worryingly, research has found that people in lower socioeconomic groups are less likely to engage in markets - meaning that those who would benefit most from a cheaper deal are the least likely to switch.<sup>34</sup> In other sectors, Ofgem has found that energy customers who reported being in arrears on bills or in receipt of the Warm Home Discount were least likely to have engaged in the energy market.<sup>35</sup> Our local Citizens Advice staff see first-hand how this affects people, finding that people who are digitally excluded or have mental health problems can face extra barriers to switching - meaning the people who afford it least can end up paying extra.<sup>36</sup>

The complexity of the range of social tariffs on offer can also create an extra obstacle, as someone facing financial distress may feel less able to spend time

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<sup>30</sup> Which?, [Millions could be missing a £250 per year saving on broadband as many providers fail to promote social tariffs](#), 14 Jun 2022.

<sup>31</sup> Gov.uk, [Telecoms industry agrees to new cost-of-living plan following government summit led by Digital Secretary Nadine Dorries](#), 27 June 2022.

<sup>32</sup> Citizens Advice, [Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority](#), 2018.

<sup>33</sup> Citizens Advice, [One-in-seven customers still paying the loyalty penalty despite cost-of-living crisis](#), 1 August 2022.

<sup>34</sup> Social Market Foundation, [Stick or Switch? Making markets fairer and more competitive](#), September 2017, p16.

<sup>35</sup> Ofgem, [Consumer Survey 2019](#), February 2020, p34.

<sup>36</sup> Citizens Advice, [One-in-seven customers still paying the loyalty penalty despite cost-of-living crisis](#), 1 August 2022.

comparing different deals. When a customer does find a tariff they can switch to, they may face an exit fee to leave their current provider - leaving them priced out of taking a cheaper deal with a different firm.

- **Lack of flexibility for consumers.** Many consumers face early termination charges if they end their contract early to switch to another provider's social tariff. Ofcom estimates that 65% of consumers are in contract, meaning they could face big fees for leaving their contract early.<sup>37</sup> This is a barrier that makes people worried about switching. 9 in 10 eligible consumers said it's important to them that they can leave their current contract without incurring fees.<sup>38</sup>

Consumers might also be discouraged to switch to a social tariff if there isn't flexibility for them to keep their pay TV services in a bundle. Of those who already have pay TV services and are eligible for social tariffs, 93% said it's important that they can keep their pay TV package.<sup>39</sup>

It's important that providers set up good-quality social tariffs that offer true flexibility for the consumer. This is particularly important for low income households, where incomes might fluctuate from month to month.

- **There is too much friction in current sign-up processes.** Consumers can face a range of different sign-up processes, depending on which social tariff they sign up to. For some tariffs, customers need to send in benefits documentation as proof of eligibility, or call a dedicated phone number instead of using the usual online sign-up form. These processes can be clunky, and in some cases add to potential stigma around being in receipt of benefits.<sup>40</sup>

We know that friction in consumer journeys can deter people from switching to a cheaper deal.<sup>41</sup> To boost take-up and minimise drop-outs, the process needs to

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<sup>37</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p9.

<sup>38</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p14.

<sup>39</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p15.

<sup>40</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p12.

<sup>41</sup> Citizens Advice, [The cost of loyalty: Exploring how long-standing customers pay more for essential services](#), 2018; Bettinger, E. P. et al., [The Role of Application Assistance and Information in College Decisions](#), The Quarterly Journal of Economics, 2012.

be as seamless as possible. A new DWP scheme will allow firms to simplify their sign-up and renewal processes by directly verifying whether customers are eligible for a social tariff.<sup>42</sup> But while this will remove some friction for customers of participating firms, there is no obligation for providers to sign up to the scheme and it still relies on consumers proactively choosing to switch.

Looking across these tests, a mixed picture emerges. There are certainly some positive signs, particularly in relation to the rapid increase in the number of social tariffs available and the broad eligibility criteria of these tariffs. However, there are some clear risks and room for improvement across all 3 of these tests. In the following section we trace the evolution of social tariffs in the water and energy sectors, and identify some broad lessons which may usefully be applied in the broadband sector.

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<sup>42</sup> Gov. uk, [Cheaper broadband for struggling families](#), 14 August 2022.

## 5. Using affordable tariffs to support people in fuel and water poverty

Social tariffs have existed in the energy and water sectors in some form for over a decade. While there are differences between the broadband sector and the energy and water sectors, it is useful to look at the evolution of social tariffs in these markets and draw some lessons.

### **The Warm Home Discount: Boosting support for people in fuel poverty**

Under the Warm Home Discount, energy firms of a certain size must offer a £150 rebate to customers receiving Pension Credit. This is funded by cross-subsidy from other bill payers. It only adds £14 onto consumers' bills for a whole year whilst supporting over 2 million financially vulnerable people.<sup>43</sup> The Government has said that this funding model "has proved to be a successful and cost-effective way of delivering direct assistance to fuel poor households."<sup>44</sup>

The Warm Home Discount started off as a patchwork of various voluntary commitments to tackle fuel poverty in the early 2000s.<sup>45</sup> This led to a variety of different tariffs and different types of support from various companies. By 2010, there were 10 different tariffs.<sup>46</sup>

But the voluntary schemes didn't work. Fuel poverty doubled between 2001 and 2009.<sup>47</sup> This meant the voluntary approach hadn't achieved its objective to reduce fuel poverty. And consumers faced a lottery of support depending on which tariffs their energy company offered. Therefore, the Government decided to move from a tapestry of

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<sup>43</sup> Department for Business, Energy & Industrial Strategy, [Warm Home Discount The Government Response to the Warm Home Discount: Better targeted support from 2022 consultation](#), April 2022, p3 and 30.

<sup>44</sup> Department for Business, Energy & Industrial Strategy, [Warm Home Discount The Government Response to the Warm Home Discount: Better targeted support from 2022 consultation](#), April 2022, p30.

<sup>45</sup> House of Commons library, [The Warm Home Discount Scheme](#), 6 May 2016, para 1.7, p6

<sup>46</sup> Ofgem, [Monitoring suppliers' social programmes 2009-10](#), 23 September 2010, p13,

<sup>47</sup> House of Commons Hansard, [Oral Answers to Questions](#), 23 November 2011: Column 301



voluntary commitments to a statutory scheme in 2009.<sup>48</sup> A single, regulated Warm Home Discount came into effect in 2011.<sup>49</sup>

Streamlining the various voluntary schemes into a single, regulated system has significantly increased the number of at-risk customers receiving help with their bills. The Warm Home Discount scheme uses data-matching in partnership with the DWP to identify customers on pension credit and automatically reduce their bills. In March 2008, 204,000 customers were receiving support for electricity bills and 255,000 were receiving support for gas bills.<sup>50</sup> In contrast, in 2020/21 alone 1 million rebates were paid to pensioners and a further 1.2 million customers at risk of fuel poverty received rebates under the Warm Home Discount.<sup>51</sup> From next year, it's estimated 99.9% of domestic energy customers will be with firms offering the discount.<sup>52</sup>

Moving from voluntary social tariffs to a mandated scheme has also meant that firms can no longer maintain a competitive advantage by choosing not to offer support to at-risk customers. While rebates under the Warm Home Discount are funded by cross-subsidy, there is a reconciliation process to distribute the costs of running the scheme.

At the moment, customers who are at risk of fuel poverty but aren't in receipt of pension credit can apply for voluntary rebates under the Warm Home Discount. But the eligibility criteria and level of support varies between firms, leading to a lottery of support for people at risk of fuel poverty. The Government has recognised that this leaves vulnerable people at risk if they don't know their entitlement or struggle with the application process. As a result, it has decided to move to a statutory rebate with a single set of eligibility criteria. The application process will be replaced by data matching to identify customers who are on low incomes and paying high energy costs.

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<sup>48</sup> House of Commons Hansard, [Commons Debate](#), 15 July 2009, Column 295. This was put forward by the Labour Government, and the Coalition Government confirmed it would keep the statutory footing of the scheme. House of Commons Hansard, [Oral Answers to Questions](#), 23 November 2011, and House of Commons library, [The Warm Home Discount Scheme](#), 6 May 2016, 1.7.

<sup>49</sup> House of Commons library, [The Warm Home Discount Scheme](#), 6 May 2016, para 1.5.

<sup>50</sup> House of Commons Library, [Fuel Poverty Bill: Bill 11 of 2008-9](#), 17 March 2009, p16.

<sup>51</sup> Ofgem, [Warm Home Discount Annual Report: Scheme Year 10](#), 17 January 2022, p3.

<sup>52</sup> Department for Business, Energy & Industrial Strategy, [Warm Home Discount The Government Response to the Warm Home Discount: Better targeted support from 2022 consultation](#), April 2022, p53.

“Through the innovative use of Government-data, those households will no longer face the lottery of applying, but will receive it automatically from their energy supplier.”<sup>53</sup>

This move from a voluntary to a statutory scheme in 2011 due to increases in fuel poverty demonstrates that tackling affordability problems through a patchwork of voluntary schemes hasn't worked in the past. And the recent step towards further mandation and automation shows that the Government recognises automation is the best way to guarantee support reaches low-income households. Moving to a single, mandated rebate for low-income households at risk of fuel poverty will help millions of consumers - regardless of who their supplier is. Around 3 million low income households are expected to receive support by 2025/26 under this expanded and automated scheme.<sup>54</sup>

### **Social tariffs in the water sector: moving from a lottery of support towards a single, regulated social tariff**

Water companies have been allowed to provide social tariffs since 2012, and individual firms set their own tariffs.<sup>55</sup> All water companies in England and Wales now have a social tariff. Water companies we spoke to recognised that cheaper tariffs are an important tool to help struggling customers start making payments. Offering a tariff that's affordable can mean customers pay more and firms are left with less bad debt. In 2019-20, more than 720,000 households in England and Wales were receiving support through water social tariffs, totalling £105 million in bill reductions.<sup>56</sup>

Social tariffs in the water sector are funded through cross-subsidy, and firms have to assess their customer base's willingness to pay when designing their tariff.<sup>57</sup> This is intended to allow firms the flexibility to address local problems with local solutions. But in reality it can leave people in some areas of the country missing out on support. Firms

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<sup>53</sup> Department for Business, Energy & Industrial Strategy, [Warm Home Discount The Government Response to the Warm Home Discount: Better targeted support from 2022 consultation](#), April 2022, p3.

<sup>54</sup> Department for Business, Energy & Industrial Strategy, [Warm Home Discount The Government Response to the Warm Home Discount: Better targeted support - Final Stage Impact Assessment](#), April 2022, p2.

<sup>55</sup> These voluntary measures are in addition to WaterSure, a statutory scheme which caps people's bills if they receive benefits and have high water usage due to a medical condition or having young children.

<sup>56</sup> CCWater, [Independent Review of Water Affordability](#), May 2021, p49.

<sup>57</sup> Department for Environment Food & Rural Affairs, [Company Social Tariffs: Guidance to water and sewerage undertakers and the Water Services Regulation Authority under Section 44 of the Flood and Water Management Act 2010](#), June 2021, para 2.6.

have varying levels of funding for their social tariffs, meaning customers face a range of eligibility criteria and support levels depending on their water company.

This leaves water consumers facing a postcode lottery of support. A family living in a certain area could receive a 90% bill reduction from their water company, but a family in the same circumstances living in a different part of the country might not be eligible for any support.<sup>58</sup>

And the water advocate has found that this patchwork of help is leaving people behind. Even when people are eligible for support, they can struggle to find out what they're entitled to or face barriers to applying.<sup>59</sup> That's why providers and governments have committed to taking action to end the postcode lottery.

Some water firms have already taken steps to align their social tariffs to make it easier for people to access support, especially if customers are served by different firms for their water and wastewater. For example, water companies in the south east of England have standardised the eligibility criteria for their social tariffs and introduced a single sign-up form. Firms such as Thames Water have gone even further, establishing partnerships with the Government to allow for data sharing and explore auto-enrollment onto social tariffs.

But to make support automated and consistent, CCWater is calling for a single, regulated social tariff for water. And the UK and Welsh governments have listened. They've now set up a group to explore how to introduce a new, universal social tariff scheme for water by 2025. They are considering funding options, including proposals to establish a single funding pot for customers across England and Wales. This would make sure that at-risk water customers have access to consistent support, and end the postcode lottery. Companies are also improving their data-sharing practices to open the door to more automation, removing barriers to access and helping more households onto a social tariff.

## **What can we learn from affordable tariffs in the energy and water sectors?**

Despite the differences between broadband, energy and water markets, there are 3 useful lessons which can be drawn from the experience of introducing social tariffs in these markets:

1. **Voluntary schemes leave consumers facing a lottery of support.** The Warm Home Discount started off as a patchwork of various voluntary commitments to

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<sup>58</sup> CCWater, [Independent Review of Water Affordability](#), May 2021, p20.

<sup>59</sup> CCWater, [Independent Review of Water Affordability](#), May 2021, p21.

tackle fuel poverty in the early 2000s. But it didn't work. Fuel poverty doubled. And so the Government decided to move from a tapestry of voluntary commitments to a single, statutory scheme. For water consumers, this means receiving different levels of help depending on their postcode. Some consumers might find themselves locked out of their area's strict eligibility criteria, even though they'd receive a discount elsewhere. And others may find that their water firm offers a much lower level of discount than others, meaning their bill could remain unaffordable even with a social tariff. Broadband consumers can also face a lottery of support depending on whether their provider offers a high-quality social tariff and support in switching to it. There's currently large variation in price, speed and quality for the social tariffs available.

2. **Automated processes lead to higher rates of take-up.** The energy sector has already moved to an automated, statutory framework for offering discounts to low-income consumers. There's ongoing work in the water sector to do the same. The Warm Home Discount achieved a significant growth in take-up by replacing a network of different tariffs with a single, regulated discount and an automated sign-up process. An automated approach means that people don't miss out on the support they're entitled to because of a lack of promotion or the administrative burden of applying.
3. **A regulated social tariff with risk-sharing levels the playing field for providers.** The Warm Home Discount scheme demonstrates that sharing responsibilities and financial risk between providers is much more effective in tackling affordability problems. Under a voluntary approach, providers have little incentive to take on the financial risk of providing a social tariff. A statutory tariff can allow firms to spread costs and ensure providers have the resources to support their customers. This means that no company can retain a competitive advantage by not offering a reduced broadband tariff, and it also means a company with very high sign-up levels isn't exposed to a high financial risk if there's a reconciliation process in place.

In the next section, we consider how these lessons can be applied in the broadband sector - setting out a series of short term and longer term options which could help to make broadband social tariffs more effective.

## 6. Options for increasing the efficacy of broadband social tariffs

In section 4 we assessed how well broadband social tariffs currently perform against 3 tests - availability, eligibility and affordability, and take-up. While the voluntary scheme currently performs comparatively well against the first 2 tests, there are areas of concern, and room for improvement across all 3 areas.

In this section we set out a series of options which could help to improve performance in each of these areas within the current voluntary framework. We then turn to look at what could be achieved in the longer term under a more prescriptive, regulated framework.

### Short term options for making broadband social tariffs more effective

#### Improving and securing the availability of social tariffs

Every eligible household should be able to access a high-quality social tariff, regardless of where in the UK they live. Although social tariffs are currently available to 75% of eligible households with their current provider, 25% of households would have to switch in order to access a social tariff.<sup>60</sup> As outlined in section 4, there is also a risk that broadband providers who currently offer a social tariff may either water down, or remove their social tariff altogether - a risk which is heightened if those who do offer a social tariff feel that they are at a competitive disadvantage to those who do not.

Under the current voluntary framework, there is very little Ofcom and DCMS can do to compel providers to offer a social tariff, or dictate what those tariffs look like. However, there are some actions Ofcom, DCMS and industry could take to maintain and improve the availability of social tariffs:

- **Broadband providers who do not currently offer a social tariff should take immediate steps to introduce one.** Ofcom and DCMS should continue to encourage them to do so both publicly and in private.
- **Ofcom could more explicitly set out what it believes to be the optimum social tariff and encourage providers to bring their social tariffs in line with**

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<sup>60</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p8.

**its recommendation.** This could increase the consistency of the social tariffs on offer, which would in turn help to make these tariffs less confusing for households and ensure they get a more consistent level of support, as well as spreading the financial burden and risk more evenly across the industry.

## Ensuring social tariffs are well-targeted and affordable

For social tariffs to make a meaningful difference to households on low incomes, there must be a balance between broad eligibility criteria and an affordable price. The current social tariff offering provides a much-needed discount for households on lower incomes. But as the cost of living rises and disposable incomes drop, the current discounted prices will still be too high for some households.

Further reducing the price of social tariffs may mean that broadband providers would need to offer social tariffs at cost, or even at a loss. It is likely these costs would ultimately be passed on to other consumers in the form of higher bills.

There are, however, some steps which could be taken to reduce the cost of social tariffs further, and offer more targeted support to the lowest income households who are unable to afford the current discounted prices:

- **Reducing Openreach costs.** DCMS and Ofcom could explore the role Openreach could play in further reducing the cost of social tariffs. For example, the company could reduce the cost of line rental for social tariffs connections. There is some precedent for support from Openreach, as last year the company installed broadband for free for households in receipt of Universal Credit with zero earnings.<sup>61</sup> But this currently costs providers £14.50 per month per connection as standard.<sup>62</sup> Reducing these costs would help keep the prices of social tariffs low enough to remain affordable for low income households.
- **Offering Government-issued vouchers to reduce costs further for those on the lowest incomes.** A voucher for those who are on the lowest incomes - for example, people who are in receipt of Universal Credit with zero income - would be a targeted, quick solution to alleviate cost pressures this winter and ensure that broadband is affordable for social tariff customers.
- **Cutting VAT on broadband bills.** The current VAT rate for broadband is 20% rather than 5% for essential services like gas and electricity. Which? has called for a cut to the VAT rate and estimates this could save a household £120.<sup>63</sup>

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<sup>61</sup> BBC, [Openreach axes connection fees for low-income homes](#), 7 Sept 2021.

<sup>62</sup> Fabian Policy Report, [Bridging the Divide: Tackling digital inequality in a post-pandemic world](#), March 2022, p19.

<sup>63</sup> Which?, [Millions struggling to afford essential telecoms, says Which?](#), 4 August 2022.

## Increasing take-up rates

Social tariffs will only make a difference to broadband affordability if enough eligible households sign up. At 3%, the current take-up rate is unacceptably low. There are a number of options which could potentially help to increase take-up of current social tariffs, including:

- **Industry could take a more proactive and creative approach to advertising social tariffs.** As outlined in section 4, it would appear that broadband providers have done very little to proactively promote their social tariffs so far. Alongside doing more to promote their social tariffs on their websites, and through social media and other advertising channels, there is also an opportunity for providers to do far more proactive communications with low income households which are struggling with their broadband costs.

Even without full data matching to tell providers which of their customers are eligible for a social tariff, providers have ways of identifying which of their customers are struggling to pay their bills. For example, calls to providers' customer service helplines from customers who say they are struggling to pay their bill, and data on customers who have started to fall behind on their bills are all indications that a customer is struggling. These circumstances should be a trigger for providers to have a conversation with them about whether they may be eligible for a social tariff.

Ofcom can also play a useful role here, by helping providers to identify these triggers and disseminating best practice.

- **DCMS, Ofcom and Industry could launch a joint awareness raising campaign.** Nearly 70% of potentially eligible households are currently unaware that broadband social tariffs are available.<sup>64</sup> A coordinated consumer awareness campaign could help to boost the number of people who are aware that social tariffs are available, and how they can switch to one. Other partners, for example the DWP and third sector organisations could also be encouraged to promote the campaign to their clients.
- **Removing exit fees for switching to social tariffs.** Around a quarter of consumers are with broadband providers that don't offer social tariffs.<sup>65</sup> And as

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<sup>64</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p2.

<sup>65</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p2.

65% of people are in contract with their broadband providers,<sup>66</sup> many will face a hefty exit fee to leave their provider for a social tariff. This can wipe out a significant proportion of the savings - and in some cases, makes it impossible to switch at all. If a provider doesn't offer a social tariff, it could allow customers to switch to another firm's social tariff without incurring a charge. This would help remove one barrier to switching to a social tariff, helping more eligible people to take up a cheaper deal.

- **Removing friction from the switching process.** The new DWP scheme, which will allow providers to simplify their sign-up and renewal processes by directly verifying whether customers are eligible for a social tariff, can help to reduce friction.<sup>67</sup> However there is no obligation for providers to sign up to the scheme and not all providers who currently offer a social tariff have indicated that they will participate. If providers decide not to use the scheme, they could look at other ways to remove friction from the process and make it as easy as possible for customers to switch to a social tariff. Ofcom and DCMS could also consider doing more to encourage providers to sign up to the scheme, or find other ways to remove friction from the process.

## Longer-term initiatives to create effective and sustainable social tariffs

The measures above would help make broadband social tariffs more effective in the immediate term. However, given how far we are from meeting the 3 tests of success for social tariffs, it's worth reflecting on whether a more regulated approach will be required.

The benefits of a regulated approach include:

- **The opportunity to create a uniform social tariff.** Requiring firms to have a more standardised social tariff offering would remove the confusing patchwork of different deals, and eliminate the need for customers to shop around. This would help create the conditions to boost take-up by making it easy for customers to access social tariffs and eliminate the current lottery of support.

Regulation would also pave the way to require a more proactive, automated form of support from providers. For example, under a regulated social tariff firms could be required to take steps to identify which of their customers could

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<sup>66</sup> Ofcom, [Affordability of Communications Services: September 2022 update](#), 29 September 2022, p9.

<sup>67</sup> Gov. uk, [Cheaper broadband for struggling families](#), 14 August 2022.



be eligible for a social tariff, possibly through data matching. At this stage, firms could be required to make proactive contact with eligible customers and offer to move them onto a social tariff.

- **Levelling the playing field for broadband providers.** With regulation, Ofcom and DCMS could set a clear, enforceable framework for what social tariffs should look like. Unlike voluntary guidance, mandatory requirements would mean *all* firms would need to offer a social tariff meeting certain standards. This would level the playing field between firms, spreading financial risk and removing any competitive advantage from firms that don't have a high-quality social tariff. And in the long-term, it would protect against social tariffs being watered down or removed.

There are a number of aspects DCMS and Ofcom would need to consider if they did decide to introduce a regulated social tariff. This includes deciding who should be eligible, what the discount should look like and how to fund it.

A social tariff could offer a deeper discount but with a narrower eligibility criteria, or a smaller discount with a wider eligibility criteria - and it could target specific groups such as jobseekers or low-income families with young children. Savings could be passed on through a price cap on social tariff customers' bills, or as a percentage rebate. And the system could be funded by general taxation, contributions from industry, or a combination of the two.

- **Scope for a wider variety of funding options and risk-sharing.** A regulated social tariff would allow for a more formal reconciliation process, meaning costs could be shared across the industry. It would also open up additional funding options - including input from Openreach, Government funding, or a combination of different sources. This would help keep the price of a social tariff sustainable for industry and affordable for customers.

## 7. Next steps

In this discussion paper, we have set out a number of short-term actions DCMS, Ofcom and industry could take to ensure that broadband social tariffs are successful in meeting their strategic aim of reducing broadband affordability issues. We've also explored the benefits of a longer-term, regulated approach to social tariffs.

We look forward to talking to DCMS, Ofcom, industry and others with an interest in this area about the analysis and options set out in this paper and agreeing a series of actions to ensure that low income households are able to access the support they need to afford their broadband bills through the cost of living crisis and beyond.

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