13 June 2023

Households are living on empty - can social tariffs reduce the pressure?

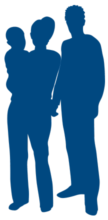
This is an exploratory piece to start the conversation about cross-sector social tariffs. It's the first in a series of outputs from Citizens Advice exploring this theme. In this short discussion paper, we use client budget data from our local Citizens Advice to model the impact of a set of social tariffs across a number of essential markets.

More and more of our debt clients have less money coming in than going out. They're living on empty. Our modelling shows social tariffs are a powerful tool policymakers can use to tackle the growing problem of essential living costs outstripping low incomes:

- An automatic 20% social tariff for water, mobile, broadband and insurance would move the average budget of eligible Citizens Advice debt clients from a monthly deficit of £16 to a position of breaking even each month with a few pounds to spare.
- Moving from a negative to even a very modest positive budget means people being able to balance their budgets day-to-day without going without essentials. It means families not having to choose between heating and eating, their broadband contract or their car insurance - without having to borrow money to cover these costs.
- A 20% social tariff for water, mobile, broadband and insurance would bring negative budget rates among eligible clients back to where they were at the start of 2022, before the acute cost-of-living hardship of the past 18 months. A negative budget can quickly spiral into unsustainable borrowing and debt. So undoing 18 months of cost-of-living pressure for those living on empty would be a big step in the right direction.

Sign of the times: 1 in 2 debt clients now have a negative budget

Sunthar is one of the many people who have turned to Citizens Advice for help with their family's budget. After suffering a knee injury, Sunthar is no longer able to work - and his family now relies on Universal Credit and his wife's part-time salary. As the cost-of-living crisis worsened over the winter, this drop in income left Sunthar and his family with too little coming in to cover all their essential bills. They're running on empty - and are £20 short of what they need each month just to get by. Unless they skip meals, go without heating and hot water, or cut back on other essentials, they have no money left at the end of the month to make repayments for their existing debts — and are gaining new debt each month just by surviving.



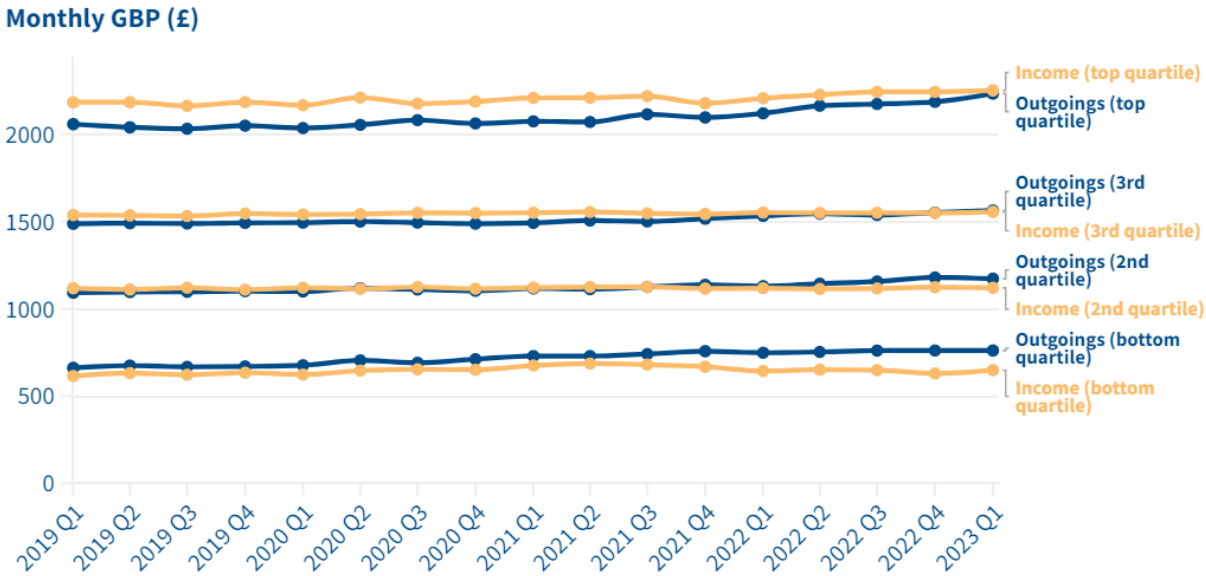
"Once we pay the bills and buy food there's nothing left. We're not sure what we are going to do as the prices are just going up for everything and we don't have any extra money coming in." Sunthar, January 2023

This is the reality of having a negative budget. And Sunthar isn't alone. Bills have rocketed throughout the cost-of-living crisis and incomes have struggled to keep up. More and more people have come to Citizens Advice in a negative budget over the past few years - from just over a third of those seeking help with debt in 2019, to over half today. This means 1 in 2 people our advisers help with debt have more money going out than coming in.

Our debt clients on the lowest incomes are particularly likely to be hit by negative budgets, as the graph below shows. Our poorest 25% of debt clients have monthly essential outgoings that significantly exceed their income - on average, they're £120 short each month of what they need. That's an average deficit of more than £1,400 every year.

Income vs outgoings over time

How median essential outgoings (blue) have risen relative to median income (yellow) for each income quartile of our clients over the past 4 years



When households find themselves in a negative budget, the usual money saving tools aren't enough to help them. People like Sunthar have to choose between cutting back on essentials or borrowing money to cover them. Cutting back on essentials could mean going without heating, skipping meals or cutting off the internet connection. Each of these options would have negative consequences for health, wellbeing and people's ability to keep working. And borrowing money to cover bills one month means having an extra payment obligation the next month. Living on empty can quickly lead to unsustainable debt. That's why Citizens Advice has sounded the alarm about a debt timebomb off the back of the cost-of-living crisis. And with more consumers pushed into debt, we've also called out the holes in the debt safety net which cause harm to consumers.

Policymakers can support people in negative budgets by thinking big with social tariffs

Broadly speaking, there are 2 ways to address the problem of negative budgets. Either you increase incomes so they keep pace with rising costs, or reduce the cost of essentials. We want to explore ways that policymakers can think big to reduce outgoings for those with the lowest incomes.

Social tariffs are targeted support mechanisms for people on lower incomes, which allow them to access essential goods and services at reduced rates. Citizens Advice has already published a report with the Social Market Foundation on the need for an energy social tariff to support households struggling with energy costs. More than 12 million households on the lowest incomes would qualify for support as set out by Citizens Advice. The average qualifying household would see their energy bill reduced by £381 per year. That would significantly reduce pressure on these households.

But energy is not the only essential that has shot up in cost over the past 18 months. Water, mobile, broadband and insurance bills have also risen sharply. 1 million people cancelled their car insurance last year amidst pressure from rising bills and a similar number stopped being able to pay for broadband. The most recent round of hikes in April this year saw double-digit percentage increases for mobile and broadband contracts. Car insurance is 20% more expensive than a year ago. Food inflation has made weekly shops less affordable, with many essential items more than 20% more expensive than they were a year ago. Transport costs have also seen dramatic rises; fuel prices reached an eye-watering peak of 43.7% inflation in July last year, whilst train fare inflation rose to 8.7% in the same month.

A social tariff thought experiment

What would happen if we took inspiration from our energy social tariff proposal and tried to think really big with social tariffs - providing a similar affordable safety net for low income people in other essential markets? To be really ambitious here, we need to think beyond the social tariffs that already exist in some other sectors. For example, there are cheaper broadband tariffs available to millions of households claiming certain benefits. But - crucially - the support doesn't reach everyone who needs it. Only 5% of eligible households are on a broadband social tariff. This means £824 million of support goes unclaimed.

For this paper, we've conducted a thought experiment to push our thinking on the potential power of social tariffs. We've used real client budget data from local Citizens Advice to model the difference hypothetical social tariffs in water, mobile, broadband, insurance, food and transport would make to the budgets of our low income clients.[1] We can use this thought experiment to imagine the impact that a set of ambitious social tariffs could have on the problem of households living on empty.

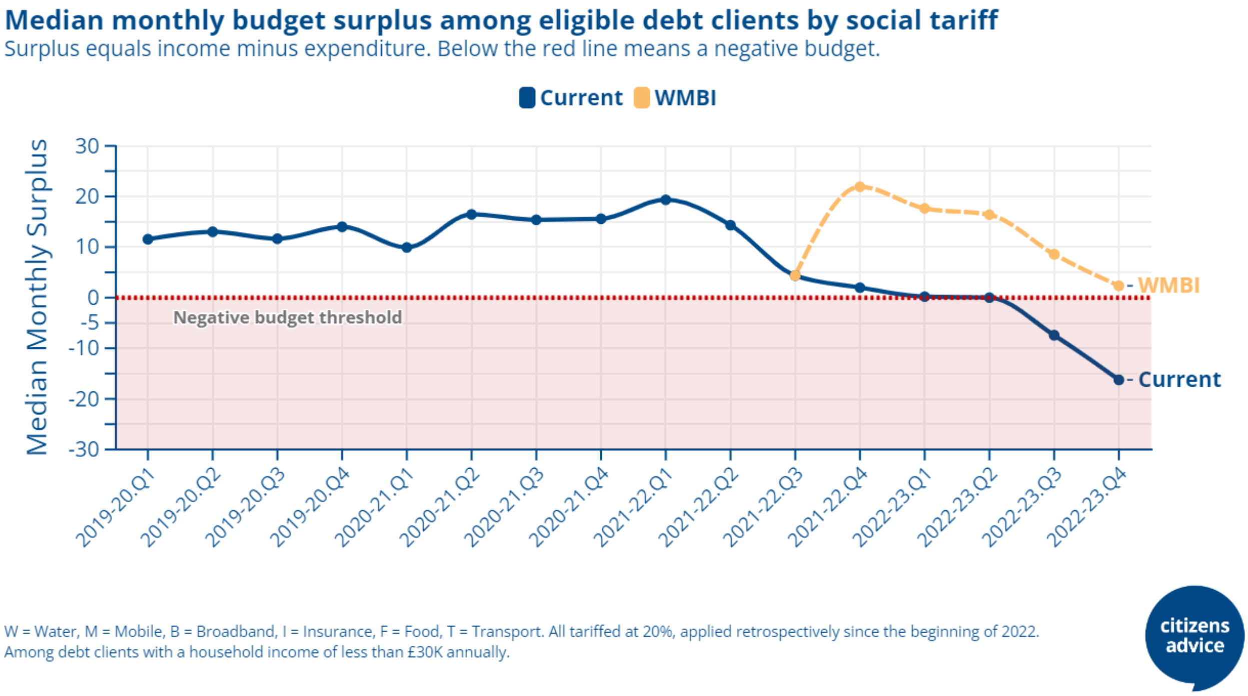
Modelling the impact of social tariffs

The modelling for this thought experiment uses the same eligibility threshold as our energy tariff - meaning that any household with an income of £30,000 or under is eligible.[2] The hypothetical social tariffs we've modelled reduce costs by 20% for all eligible households, assuming automatic take-up so that every eligible household would receive the discount. Our modelling imagines that these social tariffs had been put in place at the start of 2022 as a response to the cost-of-living crisis, and asks: what impact would this have had on the position our low-income debt clients are in now? There are two ways to measure the impact of this hypothetical policy move:

- First, to what extent would the hypothetical social tariffs narrow the gap between income and expenditure in individual household budgets?
- Second, to what extent would the hypothetical social tariffs reduce the overall proportion of debt clients who are in a negative budget?

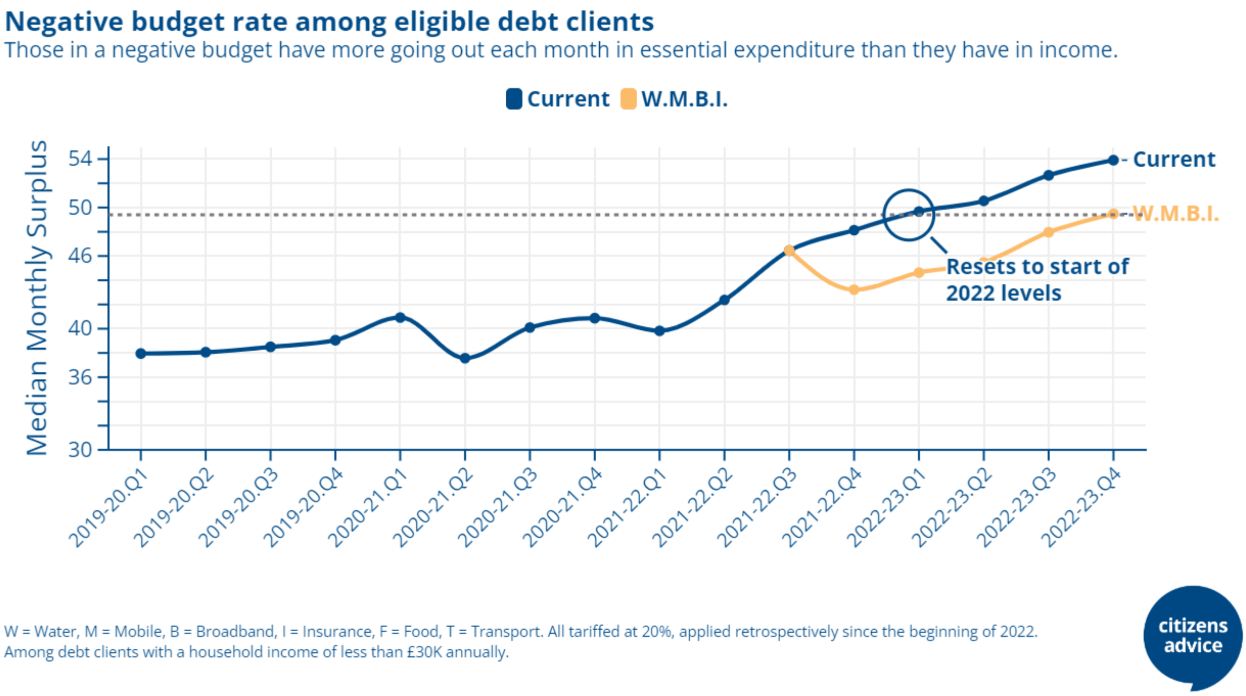
Water, mobile, broadband and insurance

Let's turn first to 4 other regulated markets beyond energy - namely water, mobile, broadband and insurance. As the graph below shows, a suite of social tariffs here would undo much harm from the last 18 months. A 20% automatic social tariff across these four essential bills would have tipped the average budget amongst eligible households from negative just about into positive. Where they're currently an average of £16 short each month, instead they'd be just about breaking even each month after covering their essential outgoings, maybe with a couple of pounds to spare. As we saw with Sunthar, a negative budget can quickly lead to a spiral of borrowing and mounting debt. So undoing 18 months of cost-of-living pressure for those living on empty would be a big step in the right direction.



Of course, having just about enough coming in each month to cover essential costs is far from a comfortable financial situation. But there is an important difference between breaking even and having a negative budget that we shouldn't underestimate. Moving from a negative to even a very modest positive budget means people being able to balance their budgets day-to-day without going without essentials. It means families not having to choose between heating and eating, their broadband contract or their car insurance. And crucially, it means they'd be less likely to have to borrow money to avoid these choices.

As the below graph shows, a set of social tariffs across water, mobile, broadband and insurance would bring negative budget rates among eligible clients back to where they were at the beginning of last year, to around 49%. In other words, it would undo the negative squeeze of the past year and a half - where we've seen much of the impact of the cost-of-living crisis bite.



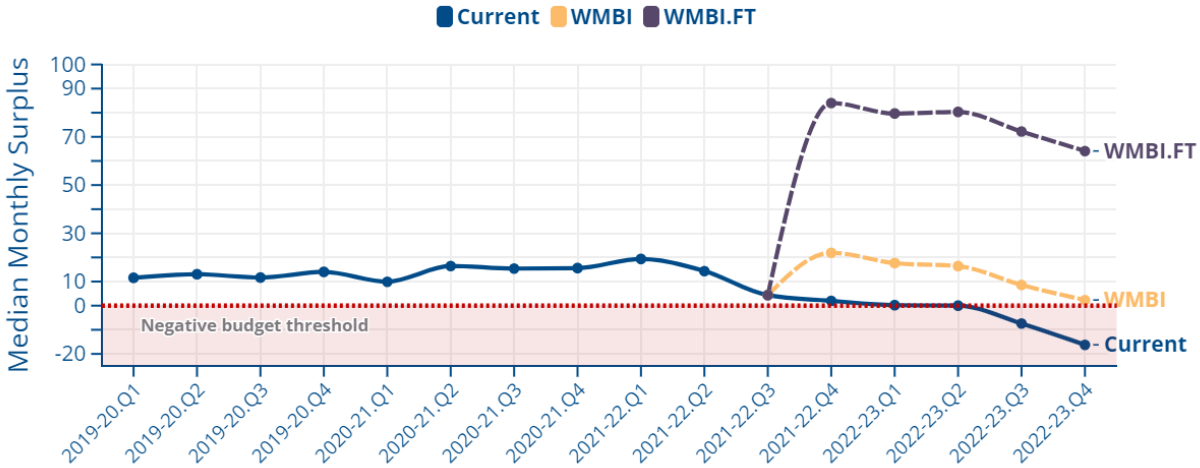
Food and transport

Could we aim even higher with the idea of social tariffs and think beyond regulated markets? Being able to afford adequate food, clearly, is absolutely essential. And transport for many people is something essential to living their day-to-day lives - getting to work, school or being able to visit friends and family. Cutting down on food spending or giving up means of transportation can cause significant hardship in people's lives. Parking the practical questions around how social tariffs for food and transport costs would work in practice, let's allow ourselves to push the boundaries here.

A 20% social tariff across water, mobile, broadband, insurance, food **and** transport would put eligible households into a decidedly more comfortable position. From being £16 short each month, they'd have £64 left after paying for essentials - a more robust surplus that could have significant implications for financial resilience. People with outstanding debts could afford to make steady repayments and work towards a debt-free future. Others could put some money aside for unexpected extra costs such as new school uniforms or car repairs.

Median monthly budget surplus among eligible debt clients by social tariff

Surplus equals income minus expenditure. Below the red line means a negative budget.

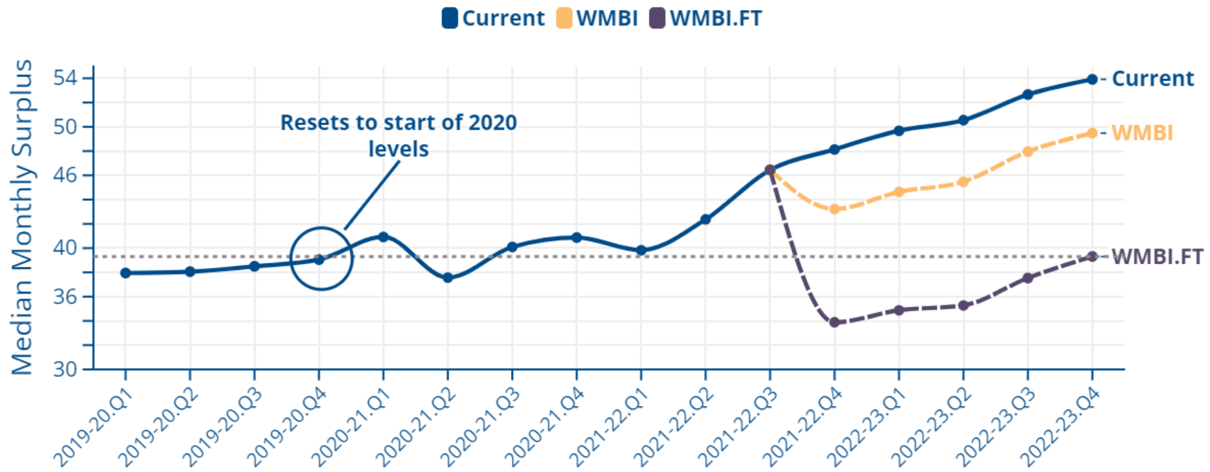


W = Water, M = Mobile, B = Broadband, I = Insurance, F = Food, T = Transport. All tariffed at 20%, applied retrospectively since the beginning of 2022.
Among debt clients with a household income of less than £30K annually.

This ambitious set of social tariffs cuts the proportion of clients in a negative budget drastically. It would reset negative budget levels amongst our low income debt clients to around 39% - as low as they were before the Covid-19 pandemic hit at the start of 2020.

Negative budget rate among eligible debt clients

Those in a negative budget have more going out each month in essential expenditure than they have in income.



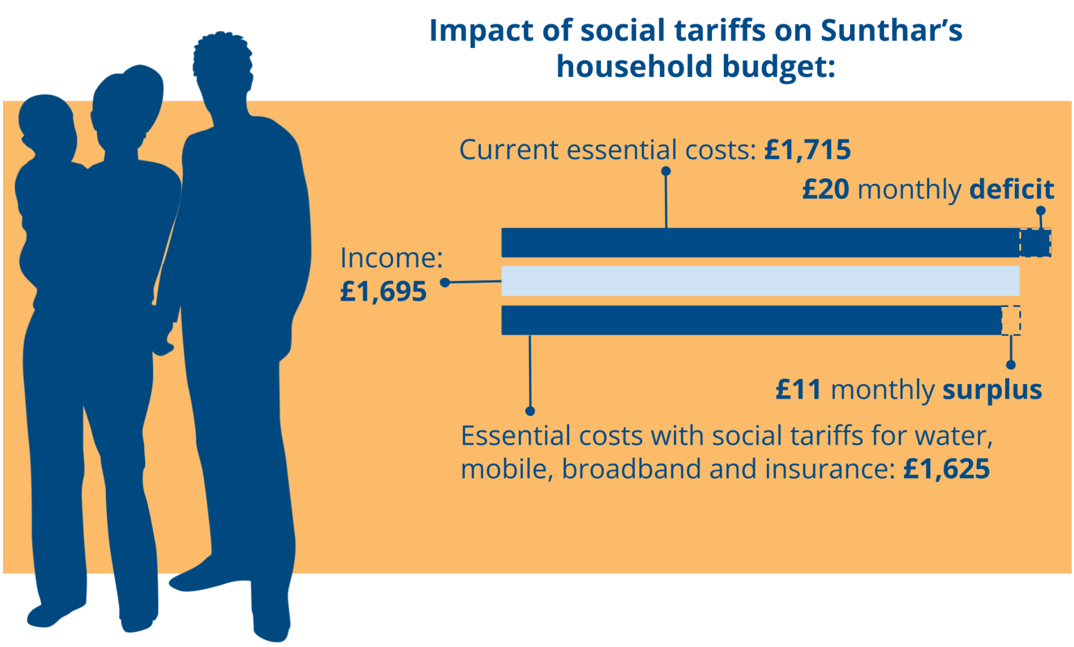
W = Water, M = Mobile, B = Broadband, I = Insurance, F = Food, T = Transport. All tariffed at 20%, applied retrospectively since the beginning of 2022.
Among debt clients with a household income of less than £30K annually.

The bottom line: a set of social tariffs would change the lives of clients currently living on empty

This modelling shows why social tariffs are a powerful tool for policymakers when incomes aren't keeping pace with outgoings. A 20% cost reduction across water, broadband, mobile and insurance alone would lift the average eligible debt client from a £16 deficit each month to breaking even with a couple of pounds to spare after covering essentials. This could mean the difference between having to choose between heating and eating or borrowing money to survive, and being able to keep afloat. And that's a really significant difference. Citizens Advice now refers more than 3 times as many clients to food banks every week than we did 4 years ago. In April this year, we helped 1,365 clients with crisis support every single day. Incomes aren't keeping up with rising costs and policymakers need to think big to support people.

The benefits of social tariffs also extend beyond the money they put back into household budgets. If you can't travel because you've cancelled your car insurance, you'll only be able to look for work in a certain area. If your home broadband has been disconnected, it's much harder to keep your online Universal Credit account up to date. Having social tariffs to reduce costs for essentials like broadband and insurance not only eases overstretched budgets, it also gives a safety-net for those on low incomes, keeping them connected to the things they need. This makes it less likely that a bit of bad luck will snowball into a bigger financial crisis.

This brings us back to Sunthar's family. With social tariffs for water, mobile, broadband and insurance, their budget would be flipped from £20 short to around £11 leftover each month after essential bills. They'd go from living on empty - borrowing to make ends meet or going without essentials - to having a little to spare each month. For Sunthar and his family, a suite of social tariffs could help them turn their lives around.



Notes

1. The modelling applied 20% reductions retrospectively on water, mobile, broadband, insurance, food, and transport expenditure to 79,462 debt clients from the beginning of 2022 until the end of 2023 Q1.

    a. Debt clients are people who come to our local Citizens Advice for help managing their debts. Our advisers carry out a budget assessment with the client to help them make a sustainable repayment plan for their debts, and this assessment will include recording income and expenditure information. It is this information that we have used to model the impact of the social tariffs. It's important to note that our low-income debt clients are not representative of the subset of the general population who would be eligible for the social tariffs modelled here. Their budget data allows us to model what social tariffs across a suite of essential markets could do to ease the burden on low-income households, but the modelling at this stage is not nationally representative. More information about our debt clients (including demographic breakdowns) is available in our Cost-of-Living Data Dashboard.

    b. Whether or not an individual is in a negative budget or not was determined using the formula *Surplus = Income.Total - Expenditure.Total*. If the individual had a monthly surplus of less than zero they were classified as being in a negative budget. Tariffs were applied to the budget of each individual client by adjusting the *Expenditure.Total* variable by the amount corresponding to the tariff amount, e.g., *New.Expenditure.Total = Old.Expenditure.Total - ((Old.Water - New.Water)+(Old.Mobile - New.Mobile)+(Old.Broadband - New.Broadband)+(Old.Insurance - New.Insurance)).* In this example, *New.Water* would be a 20% reduction in the monthly water expenditure disclosed in the Standard Financial Statement completed by clients as part of their debt assessment. From there, a new surplus value was calculated for each debt client and a new negative budget status applied to them. Finally, the proportion of debt clients in a negative budget both before and after tariffing was calculated, alongside the median amount of surplus before and after tariffing for each relevant quarter.

2. Although we've used the same eligibility conditions as a jumping-off point, the modelling undertaken here diverges from the Citizens Advice proposal for an energy social tariff in several key ways. Our energy social tariff report sets out that funding should come from general taxation rather than levies applied to energy bills. You can read the full report here. For the exploratory social tariffs

for water, mobile, broadband and insurance explored in this paper, the emphasis has been on modelling how such tariffs could support our debt clients. We will return to funding options for these social tariffs in future outputs. Our energy social tariff also proposes that the level of support households should receive through our energy social tariff should vary according to a formula that takes into account household income and energy use - whereas in our modelling here, we have assumed a flat rate reduction applied to all households that meet the eligibility threshold.

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