

Research Note:

Estimating the cost of a Social Tariff for energy use at home

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Author: Vinal K Karania, Research Manager

Summary

To help vulnerable households in the UK to afford to heat and power their homes, we propose that an 'energy social tariff' is introduced, set at half the price of the energy price cap, and targeted at households living in:

- relative poverty; and/or
- in receipt of one of the following benefits: Attendance Allowance; Carers Allowance; DLA / PIP; income related means-tested benefits (i.e. Income Support; Job Seekers Allowance; Employment and Support Allowance; Working Tax Credit; Child Tax Credit; Housing Benefit; Universal Credit; Pension Credit)

We estimate such a policy can support around 10m vulnerable households in in 2023-24; a figure that would rise to reach around 10.5m households by 2030-31. We estimate such a policy could cost between £8bn and £15.5bn in 2023-24; between £5.6bn and £13.2bn in 2024-25 and rising a little to between to £5.8bn and £13.7bn by 2030-31.

Even if all households eligible for the 'energy social tariff' were on them, and the cost was towards the upper end of our scenarios of around £13bn per year, the targeted nature of an 'energy social tariff' on vulnerable households in society would mean our proposal could be funded for between 5 and 10 years for the same cost as funding the Energy Price Guarantee for two years.

Introduction

In this note we present an estimate of the cost of introducing a social tariff for vulnerable households in the UK¹. We start by setting out the policy ask, then explaining the methodology behind the analysis, and finally describing and discussing the estimated cost of such a policy.

Policy Ask

The increases in the energy price cap this year have highlighted how quickly an essential commodity such as energy can become unaffordable for vulnerable households, leading them to have to make difficult decisions as to whether to cut back spending on essentials such as food or to keep their home warm through colder periods.

Introducing an 'energy social tariff' can play a role in helping vulnerable households in the UK to afford to warm their homes through colder periods. An 'energy social tariff' is a discounted tariff targeted to those on lower incomes and with specific needs.

Our proposal is that an 'energy social tariff' is introduced, set at half the price of the energy price cap, and targeted at households living in poverty and/or in receipt of one of the following benefits: income-related means-tested benefits; Disability Living Allowance (DLA) / Personal Independence Payment (PIP); Attendance Allowance; Carers Allowance.

¹ Whilst the energy market in Northern Ireland is different to the rest of the UK, we have included Northern Ireland in our analysis for two reasons: (i) we believe as a principle the households of Northern Ireland should receive similar support; and (ii) depending on the funding mechanism Northern Ireland may receive proportional funding through the Barnett Formula

Methodology for costing energy social tariff

The first step to estimating the cost of introducing an energy social tariff is to estimate the number of households that would be eligible for an energy social tariff. We use the Family Resources Survey 2019-20 and the Household Below Average Income 2019-20 dataset to estimate the number of households in the UK that are:

- living in relative poverty (i.e. have a net equivalised after-tax household income below 60% of median income, after housing costs) and/or
- have at least one member who is in receipt of one of the following benefits: Attendance Allowance; Carers Allowance; DLA / PIP; income related means-tested benefits (i.e. Income Support; Job Seekers Allowance; Employment and Support Allowance; Working Tax Credit; Child Tax Credit; Housing Benefit; Universal Credit; Pension Credit)

The Family Resources Survey (FRS) is a continuous survey which collects information on the income and circumstances of individuals living in a representative sample of private households in the United Kingdom. It has information on benefit recipients.

The Household Below Average Income (HBAI) dataset is created from the FRS with the aim of providing information on UK living standards based on household income measures. It has information on whether households are living in poverty.

For the purposes of our analysis, we used the FRS 2019-20 and HBAI 2019-20 because it is the last full year of available data not impacted by the consequences on welfare policy of the Covid-19 pandemic.

The FRS is known to underestimate the number of benefit recipients, with the scale differing depending on the benefit type. We partially adjust for this by using the higher band 95% confidence interval value for estimating the number of eligible households (and not the midpoint estimate). Furthermore, by the eligibility criteria focussing on multiple benefits and/or households living in poverty there is the possibility that some of the underreporting is removed because such underreporting households are captured by this broader definition; for example households in receipt of one benefit are usually in receipt of or eligible for another benefit, and so if they are part of the underreporting group for one benefit type they may be included by being part of the group claiming another benefit that has lower levels of underreporting.

The second step is to project the number of households eligible to the years 2023 through to 2030. Whilst the FRS is based on 2019-20 data, the number of households in the UK indicated by this survey is similar to the Office for National Statistics's (ONS) estimate of

the number of households in the UK in 2021²; and since the number of households change little year-on-year, we have taken our estimate of the number of eligible households based on the FRS 2019-20 to be a reasonable approximation for 2023-24.

We then project forward to the years from 2024-25 to 2030-31 using ONS household projections for England³. Since the number of households in England dwarf the number of households in the rest of the UK, this is a reasonable approach and assumes the proportion of eligible households remains similar throughout this period.

The final step to estimating the cost of introducing an energy social tariff is to estimate the difference between the amount each household eligible for an ‘energy social tariff’ pays and the actual cost that each household pays in the absence of such a tariff. Our proposal is that households eligible for an ‘energy social tariff’ pay half the price of the energy price cap. There is uncertainty about the energy price cap in the coming year, and this uncertainty grows further into the future, and therefore we model three scenarios to provide an understanding of the likely cost of our policy based on a current set of projections of the energy price cap into the future.

For the year 2023-24, assume a central scenario of an energy price cap that averages £2250 over the year; and a lower case scenario of £1500 and an upper case scenario of £3000. For the years 2024-25 to 2030-31 we assume a central scenario of an energy price cap that averages £1750 over the year; and a lower case scenario of £1000 and an upper case scenario of £2500. Our approach assumes that the energy price cap will be in place at least until 2030-31.

We recognise that there will be some households who will not be eligible for the ‘energy social tariff’ – whether that is because they are eligible but not claiming qualifying benefits or are just above the criteria for claiming qualifying benefits - who will be struggling and would benefit from receiving similar support. We therefore add to the costs an additional amount to allow such households to benefit from discretionary support. We added an additional £500m in 2023-24, with this amount adjusted for inflation in subsequent years. We use Bank of England forecasts⁴ of inflation and assume the inflation rate applied will reflect inflation in September of the preceding year.

² ONS. 9 March 2022. *Families and household sin the UK: 2021*. [online] Available at <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2021#measuring-the-data>. Accessed 22/10/2022.

³ ONS. 29 June 2020. *Household projections for England. 2018-based: Principal projection edition of this dataset. Table 401*. [Online]. Available at <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/datasets/householdprojectionsforengland>. Accessed. 13/10/2022.

⁴ Bank of England. August 2022. *Monetary Policy Report. Monetary Policy Committee. August 2022. Table 1.A*. [online] Available at <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2022/august/monetary-policy-report-august-2022.pdf>. Accessed 21/10/2022.

Estimated cost of energy social tariff

Table 1 shows an estimate of the number of households in the UK that would be eligible for an energy social tariff. It shows that in 2023-24, around 10m households in the UK would be eligible for an energy social tariff; a figure that would rise little year-on-year to reach around 10.5m households by 2030-31.

Table 1: number of households in the UK eligible for an energy social tariff

| Year | Number of households (millions) |
|---------|---------------------------------|
| 2023-24 | 10.0 |
| 2024-25 | 10.1 |
| 2025-26 | 10.1 |
| 2026-27 | 10.2 |
| 2027-28 | 10.3 |
| 2028-29 | 10.3 |
| 2029-30 | 10.4 |
| 2030-31 | 10.5 |

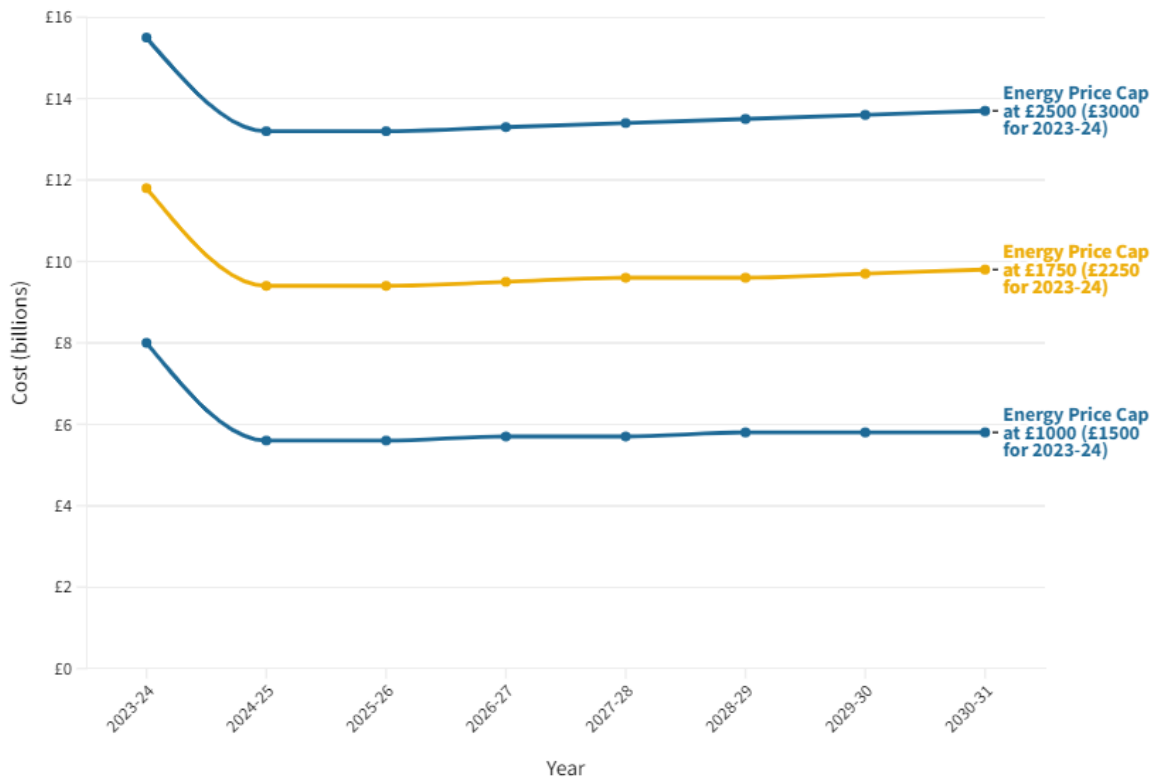
Source: Age UK analysis of Family Resource Survey 2019-20, Household Below Average Income 2019 dataset and ONS 2018-based Household projections for England

Note: figures rounded to nearest one decimal place

Figure 1 shows based on our scenarios the cost of introducing an 'energy social tariff' in the UK is between £8bn and £15.5bn in 2023-24; between £5.6bn and £13.2bn in 2024-25 and rising a little to between £5.8bn and £13.7bn by 2030-31.

The cost of our proposal is driven by the energy price cap, and the number of households eligible who will be on a 'energy social tariff'. This partly reflects the situation whereby many households entitled to benefits are not claiming them, but also that around 3.5m of the eligible 10m households are in relative poverty but not claiming one of the qualifying benefits which could make them harder to identify.

Figure 1: cost of introducing a social tariff on energy for the home, set at 50% of the energy price cap



Source: Age UK analysis of Family Resource Survey 2019-20, Household Below Average Income 2019 dataset and ONS 2018-based Household projections for England

Note: Eligible households are defined as households living in relative poverty and/or with at least one member in receipt of at least one of income related means-tested benefits (Income Support; Job Seekers Allowance; Employment and Support Allowance; Working Tax Credit; Child Tax Credit; Housing Benefit; Universal Credit; Pension Credit), DLA / PIP or Attendance Allowance

Even if all households eligible for the ‘energy social tariff’ were on them, and the cost was towards the upper end of our scenarios of around £13bn per year, the targeted nature of the ‘energy social tariff’ on vulnerable households in society would mean our proposal could be funded for between 5 and 10 years for the same cost as funding the Energy Price Guarantee for two years^{5,6}.

⁵ Cornwall Insight forecast the two-year cost of the Energy Price Guarantee (EPG) to be between £72bn and £140bn. Source: Cornwall Insights. 5 October 2022. *Energy Price Guarantee – Counting the Costs*. [online] Available at [Energy Price Guarantee - Counting the Costs - Cornwall Insight \(cornwall-insight.com\)](https://www.cornwall-insight.com/energy-price-guarantee-counting-the-costs). Accessed on 23/10/2022

⁶ We have adjusted this figure, reducing it by half a year, to reflect the cost in 2023-24 would be higher.