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# Affordability of communications services

## Summary of findings

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[Affordability of communications services](#) – Welsh overview

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# 1. Overview

Making sure people can access affordable phone, broadband and pay TV services is a priority for Ofcom. Many people's finances have changed significantly over the last year, with some facing particular challenges. Since the coronavirus (Covid-19) pandemic began, we have collected new information on the affordability of communications services in the UK, including from our *Covid-19 Affordability Tracker* research<sup>1</sup> and information collected from providers on customer debt, disconnection and pricing. In December 2020 we published a summary of initial findings on the affordability of major communications services.<sup>2</sup>

Since then, we have continued to conduct research and monitor other affordability indicators, such as levels of consumer debt. In this report, we set out further evidence and our assessment of the scale of affordability issues with communications services. To reflect the importance of people being able to access the internet, we pay particular attention to the affordability of fixed broadband and mobile internet services. We conclude by setting out the steps that we consider providers should take to help address the affordability issues we have identified.

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<sup>1</sup> For more information, please refer to Annex 2 (Consumer research technical annex).

<sup>2</sup> Ofcom, December 2020. [Affordability of communications services: A summary of initial findings](#) ("our December 2020 report").

## What we have found

A significant number of UK households continue to face affordability issues. Our evidence shows that:

- Around **2 million households**<sup>3</sup> reported an affordability issue with broadband and/or smartphone services in the month before they were surveyed, or do not have internet at home partly due to cost.
- The **3.3 million households** with the lowest incomes in the UK spend on average over 4% of their disposable income on fixed broadband, nearly four times more than the proportion of an average household.

Many customers who are more likely to have affordability issues could reduce their bills considerably by shopping around for a better deal. But for some customers on the lowest household incomes, engaging with the market may not be enough to prevent affordability problems.

Targeted discounted tariffs can provide an important safety net for households with the most acute affordability issues. Since we published our initial findings in December 2020, six providers have introduced targeted tariffs or improved their existing products. **BT, Community Fibre, Hyperoptic, KCOM, Virgin Media and VOXI each offer at least one targeted tariff with unlimited internet access priced at £10, £15 or £20 per month.** Our analysis indicates that such prices can help households that are likely to have affordability issues, with deeper discounts particularly helping those on the lowest incomes.

While we welcome the progress some providers have made since December, we are concerned that there is not enough support for households on the lowest incomes. Many providers still do not offer targeted tariffs at all and take-up of the targeted tariffs currently available is low (1% of households in receipt of zero earnings benefits).

Given the number of households affected by affordability problems, we are disappointed that industry has not gone further. To address the gap in support for those on the lowest incomes, we strongly encourage providers to offer effective targeted discounted tariffs that reflect the design features set out in this report, and to proactively promote them to improve take-up.

## Our next steps

We will continue to monitor affordability issues and the availability, promotion and take-up of targeted tariffs. If a voluntary approach does not sufficiently address the affordability issues that we have identified, we think there would be a strong case for exploring whether regulated social tariffs would be necessary to address remaining gaps in support, alongside other potential options. Ofcom does not have the power to introduce regulated social tariffs without being directed to by the Government.

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<sup>3</sup> The error range around the 2 million estimate is +/- 500,000 households. This population estimate combines latest monthly data (April) from the *Covid-19 Affordability Tracker* and data from the *Technology Tracker 2021*. See footnotes 48-49 and Annex 2 (Consumer research technical annex) for further detail.

## Our approach to defining affordability

- 1.1 We consider that: “A good or service is considered to be affordable for a consumer if they are able to purchase it without suffering undue hardship<sup>4</sup>”. Affordability problems arise if communications services are not purchased due to cost, or where a service is purchased but at a cost that results in hardship. For any given communications service, we expect households to fall into three groups:



### Our consumer research found around one in five households have at least one affordability issue

- 1.2 Our *Covid-19 Affordability Tracker* research<sup>5</sup> shows that 18% of households reported an affordability issue with at least one communications service (including 5% for fixed broadband and 6% for mobile) in the month before they were surveyed. This is similar to the situation we reported in our December 2020 report.<sup>6</sup>
- 1.3 Our research shows that people attach particular importance to their fixed broadband service and that some households are disproportionately more likely to report affordability

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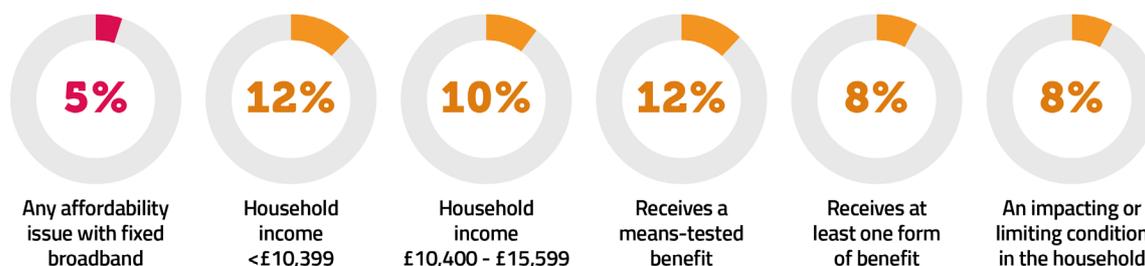
<sup>4</sup> An example of undue hardship in this context is being forced to reduce other essential spend in order to purchase a service. This definition was previously published within a 2014 Ofcom report. See Ofcom, July 2014. [Results of research into consumer views on the importance of communications services and their affordability](#), section 3 (Approach to assessing the affordability of “essential” communications services).

<sup>5</sup> The consumer research included in this report (unless otherwise stated) is the average taken from interviews conducted between November 2020 and April 2021, using monthly telephone interviews among c.1,100 decision makers within UK households. For more information, please refer to Annex 2 (Consumer research technical annex).

<sup>6</sup> In our December 2020 report we reported that 19% of households (based on an average for that period) reported an affordability issue with at least one communications service.

issues. Lower income households and those in receipt of at least one type of benefit were more likely to have an affordability issue with their fixed broadband service and all communications services. Figure 1 shows the proportion of households who experienced an affordability issue with their fixed broadband service, by group.

**Figure 1: Any affordability issue experienced with fixed broadband, by group**



Source: Ofcom Covid-19 Affordability Tracker.<sup>7</sup>

### Targeted discounted tariffs can provide a safety net for households with the most acute affordability issues

- 1.4 Our analysis of provider data suggests many broadband customers who are more likely to have affordability issues could reduce their bills considerably by shopping around for a better deal.<sup>8</sup> But for some customers on the lowest household incomes, engaging with the market may not be sufficient to prevent affordability problems. Our analysis shows that households on the lowest incomes spend around four times as much on fixed broadband as a proportion of their disposable income compared to the average household. For such households, targeted discounted tariffs offering lower prices may be necessary to make services affordable.
- 1.5 In our December 2020 report, we strongly encouraged providers not already offering targeted tariffs to consider introducing them. Since then, six providers have introduced targeted tariffs or improved their existing ones. BT, Community Fibre, Hyperoptic, KCOM, Virgin Media and VOXI each offer at least one targeted tariff with unlimited internet access priced at £10, £15 or £20 per month, as set out in table 2 below. Our analysis indicates that such prices can help households that are likely to have affordability issues, with deeper discounts particularly beneficial for those on the lowest incomes.

<sup>7</sup> Analysis for the lowest household income category is indicative only as a third of respondents did not complete the income question. A higher percentage of the income non-respondents are from the lower socio-economic grades so affordability issues among this group could be higher than stated.

<sup>8</sup> In June 2021, we found that the cheapest tariffs for a standard and entry-level superfast dual-play services were £16.99 and £21.95 per month respectively. In contrast, we found that households in the top 10% most deprived areas were spending on average £26 and £31 per month for standard and entry-level superfast services respectively. As such, those customers could reduce their bills by around £9 per month if they switched to the cheapest tariffs available on the market.

Table 2: Targeted internet tariffs offered by communications providers

Provider	Price	Speed	Eligibility <sup>9</sup>	Call allowance	Discount against provider's cheapest equivalent	Discount against cheapest market-wide equivalent <sup>10</sup>
<a href="#"><u>BT Home Essentials</u></a> <sup>11</sup>	£15	36Mbit/s	Universal Credit ("UC"), Jobseeker's Allowance ("JSA"), Employment Support Allowance ("ESA"), Pension Credit (Guarantee Credit)	700 minutes	£23 per month	£10 per month <sup>12</sup>
<a href="#"><u>BT Home Essentials 2</u></a>	£20	67Mbit/s		Unlimited minutes	£27 per month	£5 per month
<a href="#"><u>Community Fibre</u></a> <sup>13</sup>	£10	10Mbit/s	UC, Income-based JSA, Income-related ESA, Housing Benefit, Personal Independent Payment ("PIP")	N/A	£10 per month	£7 per month
<a href="#"><u>Hyperoptic Fair Fibre 50</u></a> <sup>14</sup>	£15	50Mbit/s	UC, Income-related JSA, Income-related ESA, Pension Credit, Housing Benefit, PIP	N/A (free evening and weekend calls can be added for £3 a month)	£7 per month	£7 per month
<a href="#"><u>Hyperoptic Fair Fibre 150</u></a>	£25	150Mbit/s			£10 per month	£5 per month

<sup>9</sup> The criteria listed here are not exhaustive for all providers. Full lists are provided on the websites linked to in the table.

<sup>10</sup> Prices are compared to the cheapest UK-wide commercially available tariff in the equivalent speed bracket (e.g. standard, superfast, ultrafast) as given by *Pure Pricing's UK Monthly Broadband Pricing Tracker June 2021*.

<sup>11</sup> BT and KCOM both also offer a regulated landline-only social tariff. BT Home Essentials landline only offers unlimited calls for £10 a month. KCOM's Flex Call Only offers 20 local calls and 60 mins to 0845/ 0870 numbers for £5.10 a month, with a £10 spend cap once the inclusive call allowance has been reached.

<sup>12</sup> This is compared to the cheapest tariff offering unlimited minutes, therefore likely overstates the relative discounting.

<sup>13</sup> These products are only open to applications for a specified period: Community Fibre's is open until the end of July 2021 and VOXI's is open until the end of September 2021.

<sup>14</sup> Hyperoptic also offers dual-play tariffs, which are £3 per month more than the broadband only tariffs in the table.

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<a href="#"><u>KCOM Full Fibre Flex</u></a>	£19.99	30Mbit/s	UC zero earnings, JSA, Income-related ESA, Income Support (“IS”), Pension Credit, Housing Benefit, PIP	20 local calls and 60 mins to 0845/0870, with £10 cap	£10 per month	£2 per month <sup>15</sup>
<a href="#"><u>Virgin Media Essential broadband</u></a>	£15	15Mbit/s	UC	N/A	£10 per month <sup>16</sup>	£2 per month
<a href="#"><u>VOXI For Now</u></a> <sup>13</sup>	£10	5G where available	UC (employment based), JSA, ESA	Unlimited minutes, unlimited texts	£25 per month	£5 per month

Source: Ofcom/Pure Pricing's UK Monthly Broadband Pricing Tracker June 2021/Pure Pricing's UK Monthly Mobile Pricing Update July 2021, [KCOM](#), [Virgin Media](#), [BT \(targeted tariff\)](#), [BT \(provider equivalent\)](#), [Community Fibre](#), [VOXI](#) and [Hyperoptic](#) [accessed at 15 July 2021]. Note: Discounts are rounded to the nearest whole number.

<sup>15</sup> This product offers a £10 per month discount on commercial pricing available in the Hull Area.

<sup>16</sup> Virgin Media does not offer a comparable commercial standard speed product, so is compared to their cheapest superfast broadband tariff.

**We have seen progress in the voluntary provision of targeted tariffs, but there remains a gap in support for households on the lowest incomes**

- 1.6 While the targeted tariffs currently available to consumers can help many low-income households that are struggling to pay, there remains more for industry to do. For example, of the current tariffs, some are only available for a limited period, some application processes are not as straightforward as they could be, and take-up across all providers is low.
- 1.7 Some fixed and mobile providers do not offer any targeted tariffs at all, which leaves a gap in support for low-income consumers. For example, a significant proportion of customers would not be able to access a broadband targeted tariff without paying an early termination charge because they are in contract and their provider does not offer a targeted tariff. And while there are multiple broadband targeted tariffs, in some parts of the UK low-income households will only have a choice of one provider's targeted tariff based on their coverage.
- 1.8 In this context, and given the scale of the affordability issues identified, we strongly encourage providers to offer effective targeted tariffs and to proactively promote them to people who may be eligible. To be effective, such products should meet the needs of the most financially vulnerable households<sup>17</sup>, and follow the other design features set out in this report.
- 1.9 We will continue to monitor affordability issues and the availability, promotion and take-up of targeted tariffs. If a voluntary approach does not sufficiently address the affordability issues that we have identified, we think there would be a strong case for exploring whether regulated social tariffs would be necessary to address remaining gaps in support, alongside other potential options. Ofcom does not have the power to introduce regulated social tariffs without being directed to by the Government.

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<sup>17</sup> Where providers could offer deeper discounts by narrowing eligibility we consider that this could deliver greater benefits for those on the lowest incomes. Our analysis suggests that those in the lowest income decile aligns broadly with households on zero earnings benefits, so this could act as a proxy for households in the lowest income decile.

## 2. Background

### **Our duties include a responsibility to monitor affordability and protect vulnerable consumers, including those with low incomes and special social needs**

- 2.1 Ensuring all consumers can access the communications services they need at an affordable price is at the heart of what Ofcom does. We have a role in monitoring pricing and affordability of communications services under the Communications Act 2003 (“the Act”). Specifically, our principal duty under section 3(1) of the Act is to:
- further the interests of citizens in relation to communications matters; and
  - further the interests of consumers in relevant markets, where appropriate by promoting competition.
- 2.2 In performing our duties, we must have regard to a range of different issues. Of particular relevance to our work on affordability are the needs of persons with disabilities, of the elderly, and of those on low incomes.<sup>18</sup> In this regard, we have powers to set General Conditions of Entitlement (the “General Conditions”) which specifically include conditions making provision to protect the interests of consumers.<sup>19</sup> To fulfil our duties, we have set General Condition C.5 which contains measures to meet the needs of vulnerable consumers and disabled people.
- 2.3 We also have a duty to carry out, publish and take account of consumer research under sections 14 and 15 of the Act. This includes a requirement on Ofcom to make arrangements for ascertaining the experiences of consumers of communications services, in relation to the manner in which such services are provided.<sup>20</sup> In discharging these duties, we regularly collect and publish market intelligence and consumer research information on the services available, the prices of these services, the take-up by consumers, the reasons for not taking up services, and the overall spend on communications services.
- 2.4 There are also specific powers to address affordability concerns through the universal service framework.<sup>21</sup> <sup>22</sup> The Secretary of State may include guidance about matters relating to the pricing of communications services specified in a Universal Service Order.<sup>23</sup> Ofcom’s role is to implement the Secretary of State’s Order and in doing so, we may set any such universal service conditions as we consider appropriate.<sup>24</sup> In order to ensure that there are

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<sup>18</sup> Section 3(4)(i) of the Act.

<sup>19</sup> Section 51(1)(a) of the Act.

<sup>20</sup> Section 14(1)(c) of the Act.

<sup>21</sup> Sections 65 to 72B of the Act.

<sup>22</sup> Significant changes have been made to the universal service framework as a result of the Government’s implementation of the European Electronic Communications Code (“the EECC”). The Government [confirmed its approach](#) to EECC implementation in July 2020 (section 6 related to decisions on universal service). Since then, the Government has made a [Statutory Instrument](#) implementing the EECC.

<sup>23</sup> Section 65 of the Act.

<sup>24</sup> Section 67(1) of the Act.

appropriate tariff options for those on low incomes and/or with special social needs, in 2003 the Secretary of State mandated a social tariff for landline services.<sup>25</sup>

- 2.5 As part of the implementation of the 2003 Order, Ofcom designated BT and KCOM as Universal Service Providers<sup>26</sup> in respect of landline services and imposed on them universal service conditions which require BT and KCOM to provide, among other things, a social tariff for landline services to eligible consumers. Both BT and KCOM therefore offer a landline social tariff to comply with those regulatory obligations. In addition, BT and KCOM provide a targeted discounted broadband tariff on a voluntary basis. Details of these, and targeted internet tariffs offered by other providers for eligible households, are provided later in this report.<sup>27</sup>
- 2.6 The Government's implementation of the European Electronic Communications Code ("the EECC"), by making changes to the Act<sup>28</sup>, has also affected Ofcom's role in this area. Where it is established that retail prices are not affordable to consumers on low incomes or with special social needs, support must be provided to these consumers, which could include requiring all providers to offer them social tariff options or packages.<sup>29 30</sup> The Act as amended has given Ofcom additional powers in relation to social tariffs; in particular, the power to impose regulatory social tariffs on all providers where needed to help the most vulnerable. That power can only be exercised following a direction from the Secretary of State to Ofcom to review the affordability of relevant services and subsequent approval by the Secretary of State of Ofcom's recommendations.
- 2.7 The Government's current position is to encourage providers to introduce targeted tariffs on a voluntary basis, rather than directing Ofcom to review the affordability of relevant services with a view to imposing regulatory social tariffs on all providers. However, the Government continues to monitor the situation closely.

### **We regularly monitor affordability as well as consumers' experiences of internet access and communications more widely**

- 2.8 We have an established programme of work focusing on affordability. This includes regular monitoring of consumer affordability, such as through our [Access and inclusion](#) reports, as well as monitoring of prices, such as through our [Pricing trends for communications services in the UK](#) reports. Our [Comparing customer service](#) reports also monitor consumers' experiences and satisfaction with communications services.

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<sup>25</sup> Paragraph 5(2) of the [Schedule to The Electronic Communications \(Universal Service\) Order 2003](#).

<sup>26</sup> Ofcom designated two Universal Service Providers: KCOM for the area of Hull; and BT for the rest of the UK.

<sup>27</sup> The [Electronic Communications \(Universal Service\) \(Broadband\) Order 2018](#) did not require the provision of a mandatory social tariff for fixed broadband services.

<sup>28</sup> These legislative amendments came into force on 21 December 2020.

<sup>29</sup> Social tariffs are special tariffs or pricing structures which could take various forms and which differ from the tariffs and pricing structures provided under normal commercial conditions and are intended to be made available to consumers on low incomes or with special social needs.

<sup>30</sup> The Act as amended to implement the EECC has changed the approach to deciding which providers should be required to offer social tariffs to consumers on low incomes or with special social needs. Only in exceptional circumstances it is now permitted to impose the obligation to offer social tariffs on the designated Universal Service Providers. Instead, it must be first considered whether the obligation to offer social tariffs should be imposed on all providers of the relevant services.

- 2.9 Affordability issues may not be the only reason why consumers cannot, or choose not to, access certain communications services. So, as well as monitoring prices, we also monitor consumers' experience and use of the internet. Our annual [Adults' media use and attitudes](#) report examines adults' ability to use, understand and create media and communications in a variety of contexts. We also monitor factors such as take-up of internet enabled devices, and the impact of hardware costs on consumers' use of services via our annual [Technology Tracker research](#).

### Specific policy interventions have been made to address affordability and availability of services

- 2.10 In March 2018, the Government introduced legislation for a broadband universal service obligation ("broadband USO"), to give homes and businesses the right to request a decent and affordable broadband connection. We worked swiftly to implement the broadband USO, designating BT and KCOM as Universal Service Providers and imposing obligations on them in how they deliver these connections to eligible consumers.<sup>31</sup>
- 2.11 To ensure the affordability of the broadband USO, we set an 'eligibility price threshold' of £45 per month which means that if a consumer cannot access a decent broadband connection at their premises for £45 per month or less, they can request a broadband connection from either BT or KCOM.<sup>32</sup> We also introduced uniform pricing obligations on BT and KCOM so consumers in USO areas pay no more than consumers in other areas for an equivalent service.
- 2.12 BT made a public commitment to ensure that at least one broadband service would be made available to USO premises which meets the specification of the USO and be priced below £45 per month. We considered that a combination of the public commitment and the uniform pricing obligation was sufficient to ensure the affordability of broadband connections and services offered to USO customers.
- 2.13 In March this year we also published our decision to accept further voluntary commitments from BT to ensure continued protections for voice-only landline telephone customers.<sup>33</sup> There are low levels of switching and these customers have historically missed out on the benefits of competition. BT committed to capping increases to line rental and call charges for voice-only products at CPI+0% (with increases to line rental itself capped to inflation plus 2.5%) for a period of five years from 31 March 2021.
- 2.14 Our guide on *Treating vulnerable customers fairly*<sup>34</sup> also suggests measures providers could adopt to ensure fair treatment in a range of areas, including when a customer is in debt.<sup>35</sup>

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<sup>31</sup> See Ofcom, June 2019. [Delivering the Broadband Universal Service Statement: Designating Universal Service Providers and setting conditions](#).

<sup>32</sup> The eligibility threshold of £45 was set by reference to prices which prevailed as at November 2018. The threshold will be updated annually to reflect the Office for Budget Responsibility ("OBR") forecast of the Consumer Price Index ("CPI"). When the USO launched on 20 March 2020 the threshold was £46.10p to reflect inflation.

<sup>33</sup> Ofcom, March 2021. [Statement: Protecting voice-only landline telephone customers](#).

<sup>34</sup> Ofcom, July 2020. [Treating vulnerable customers fairly: A guide for phone, broadband and pay-TV providers](#).

<sup>35</sup> See also Ofcom, July 2021. [Call for inputs: Review of measures to protect people in debt or at risk of disconnection](#).

**We have also introduced measures to improve consumer engagement with the communications market, to help customers secure a better deal**

2.15 Last year we [introduced new rules](#) requiring broadband customers to be told when their contract is coming to an end and be shown the best deals available with end-of-contract and annual best tariff notifications. This is an important step in helping customers get better deals and we will publish a report reviewing how providers have implemented these notifications and their impact on customer behaviour in the autumn. We are also reviewing the impact of the voluntary commitments made by a number of mobile and broadband providers as part of our package of measures to ensure fairness for customers.

**We published a summary of our initial findings on the affordability of communications services in December 2020**

- 2.16 Since the pandemic began, we have collected new information on the affordability of communications services, including a monthly<sup>36</sup> *Covid-19 Affordability Tracker* and information collected from communications providers on customer debt, disconnection and pricing.
- 2.17 In December 2020 we published a summary of initial findings on the affordability of major communications services (“our December 2020 report”<sup>37</sup>). To reflect the importance of people being able to access the internet, we paid particular attention to the affordability of fixed broadband and mobile-internet services. Our analysis focused on those people who are most likely to be financially vulnerable and are therefore more likely to face issues with the affordability of services.
- 2.18 We found that there is a wide range of relatively low-price internet tariffs, but some financially vulnerable customers still struggle to stay connected. While some providers offered cheaper tariffs to customers based on eligibility criteria, take-up was low. We therefore encouraged providers to proactively promote relevant tariffs to customers who might be eligible. Where providers did not already offer such products, we strongly encouraged them to consider introducing them.
- 2.19 We committed to continue to carry out research into 2021 and monitor other affordability and debt indicators. We said we would publish further evidence and set out our assessment of the affordability of communications services, alongside any further steps we think are necessary.

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<sup>36</sup> As of April 2021, this tracker is now run every other month.

<sup>37</sup> Ofcom, December 2020. [Affordability of communications services: A summary of initial findings](#).

## 3. Estimating the number of households with internet affordability problems

- 3.1 This chapter sets out our framework for assessing the affordability of communications services and then estimates the number of households with internet affordability problems.<sup>38</sup>
- 3.2 We focus on internet access because of the essential role it plays in people's lives, noting the existing protections in place for fixed landline customers set out in the previous chapter. Within internet access, we focus on fixed broadband particularly, in recognition of the fact that it is the communications service most likely to be described as 'very important' to their household by decision makers<sup>39</sup>, and that within a household it can provide connectivity for a number of people and devices.<sup>40</sup> We also recognise that other forms of internet access, particularly through mobile connectivity, are vital for some customers and we consider evidence and measures being taken in this area too.
- 3.3 There are many ways to assess the number of households with internet affordability problems, so we use a range of methods to reach an informed judgement on the *likely range* of the population with affordability issues. We draw on Ofcom's latest consumer research on the affordability of communications services, industry data on debt and disconnection, and analysis of household income and spending.

### Defining affordability for communications services

- 3.4 We adopt a similar approach to defining affordability for communications services as in other sectors. Consistent with Ofcom's 2014 Affordability Report<sup>41</sup>, we believe that:

*"A good or service is considered to be affordable for a consumer if they are able to purchase it without suffering undue hardship<sup>42</sup>".*

- 3.5 Implicit in our definition of affordability is the importance of both price of the good or service and a household's financial circumstances. Based on this definition, for any given communications service, we expect households to fall into the following groups:
- a) **Have and are able to afford the service:** households that can afford the service and do not have to cut back on other goods or services in order to afford it

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<sup>38</sup> In our December 2020 report, we stated that we would further assess affordability and the provision of affordable tariffs available to targeted groups of customers. We also stated that we intended to particularly consider those issues that are likely to be more severe such as cancelling a service due to it being unaffordable or missing payments.

<sup>39</sup> Our *Covid-19 Affordability Tracker* found on average between November 2020 and January and March 2021 that 79% of UK households saw fixed broadband as very important to their household at the moment.

<sup>40</sup> Recent steps by broadband providers to ensure that all customers have unlimited monthly data strengthen the role that this service can play in ensuring households have internet access, regardless of the number of users or devices.

<sup>41</sup> Ofcom, 2014. [\*Results of research into consumer views on the importance of communications services and their affordability.\*](#)

<sup>42</sup> Such as being forced to reduce other essential spend in order to purchase the service.

- b) **Have the service but with, or at risk of having, an affordability problem:** households that are currently consuming the service but forgoing consumption of other important goods or services in order to afford it, missing payments for their good or service, or significantly more at risk of these outcomes in the future than other households
- c) **Do not consume the service because of affordability problems:**<sup>43</sup> households with the most severe financial difficulties who are not consuming the service as they cannot afford it

Figure 3: Illustration of the different affordability statuses of consumers



- 3.6 Households within group (b) may experience harm by either needing to cut back on consumption of important services, or perhaps taking services that do not meet their requirements, for example taking a broadband service with an inadequate speed for their needs. They may also experience harm by accruing debt for their service through missing payments as they are unable to reduce spend on other important services. This group also includes households who are significantly more at risk of these outcomes in the future than other households.
- 3.7 Households which do not take services due to affordability problems – group (c) – are likely to experience the greatest harm. These harms may be particularly acute for services such as broadband, where a decent connection can provide people with better access to education and employment opportunities, as well as wider benefits such as social inclusion.

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<sup>43</sup> This framework does not include households which do not have a communications service due to other reasons (such as digital literacy or not seeing a need for it), as these aspects are not within the scope of this report.

## Estimating the number of households with or at risk of having internet affordability problems

- 3.8 In this section we provide a detailed assessment of the number of households that are likely to have internet affordability issues. We have considered a range of evidence and approaches for estimating the number of households that are currently experiencing affordability problems and their severity:
- **Consumer research:** asking a representative sample of UK households about their services and any affordability problems they face at a given time
  - **Data from providers:** looking at the number of households who have been unable to pay for their service
- 3.9 To assess which households are at most risk of suffering affordability problems specifically for fixed broadband, we use the following approach:
- **Proportion of spend to income:** looking at the share of disposable income spent on broadband by the lowest income households, and comparing this to households with higher incomes
- 3.10 We describe each of these sources of evidence and how we have used them to reach our proposed estimates below.

### Consumer research on internet access and other communications services

- 3.11 We regularly survey consumers about their experiences with communications services<sup>44</sup>, including whether they have access to services, how important these services are to their household, and whether they are experiencing affordability problems. Such surveys provide insights into communications affordability from consumers' perspectives and how these differ by demographic, as well as providing one basis for estimating the number of households with affordability problems.
- 3.12 For our analysis, we draw on two studies:
- Our *Covid-19 Affordability Tracker* focuses on affordability issues that consumers in the communications markets may be facing and asks about any actions they have taken to help afford communications services in the month prior to interview.<sup>45</sup>
  - Our *Technology Tracker* survey provides an understanding of consumer ownership, attitudes and behaviour in the UK communications markets (fixed and mobile telecoms, internet, TV, on-demand services and radio/audio).<sup>46</sup>

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<sup>44</sup> Landline, mobile, fixed broadband, pay TV and on-demand streaming services.

<sup>45</sup> These research findings (unless otherwise stated) are an average taken from interviews conducted between November 2020 and April 2021. For more information on the research and population estimates, please refer to Annex 2 (Consumer research technical annex).

<sup>46</sup> [Ofcom Technology Tracker 2021](#). Data in this report was taken from the supplementary CATI (computer-assisted telephone-interview) omnibus survey which was commissioned to provide Ofcom with statistics that are not easily gathered using other methodologies. This survey was conducted among c3,100 adults aged 18+ between 12 February and 5 March 2021. See Annex 2 (Consumer research technical annex) for methodology.

### One in five households report that they are struggling to afford at least one communications service

- 3.13 In our *Covid-19 Affordability Tracker* we ask about experience of any of five different affordability issues, for any communications services respondents had in their household, as shown in table 4. Most households (82%) have not experienced any affordability issues with communications services.
- 3.14 However, just under one-in-five households had at least one affordability issue:
- On average, 18% of households struggled to pay for at least one communications service. We estimate that this equates to **4.2 million households** (+- 500,000)<sup>47</sup> that experienced a communications affordability issue in the last month.
- 3.15 We also estimate that in the average month around **2 million households** (+- 500,000) reported an affordability issue in relation to internet access in the last month. This is made up of:
- around **1.9 million households**<sup>48</sup> that reported an affordability issue with their fixed broadband and/or mobile internet (smartphone) services; and
  - around **100,000 households**<sup>49</sup> that do not have internet at least partially due to cost.

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<sup>47</sup> The error margin around this population estimate is +- 500,000 households. This population estimate uses latest monthly data (April) among all UK households as opposed to the average proportion across all waves of research (15% vs. 18% average). See Annex 2 (Consumer research technical annex) for further detail.

<sup>48</sup> The error margin around this population estimate is +- 500,000 households. This population estimate uses latest monthly data (April) among all UK households as opposed to the average proportion across all waves of research. This is a net of experiences as some households experienced affordability issues with both broadband and mobile services, in the last month. The estimated total number of households that experienced an affordability issue with their broadband service was 800,000 (+-200,000) and the estimated total number that experienced an affordability issue with their smartphone mobile services in the last month was 1.2m (+-300,000). **Note:** this estimate assumes mobile affordability issues among smartphone owners at least in part relates to affordability of mobile internet services. See Annex 2 (Consumer research technical annex) for further detail.

<sup>49</sup> This estimate uses the lower end of the error margin for this data point due to it being combined with other data sources, the mid-point estimate is 200,000 (+- 100,000). See Annex 2 (Consumer research technical annex) for further detail. These households state that either broadband set up costs, the monthly cost of a fixed broadband service or the monthly cost of a mobile phone service is too high, as one of the reasons they do not have, and are unlikely to get, an internet service in the next 12 months.

Table 4: Affordability issues experienced in the last month, by communications service

	Any affordability issue	Made changes to a service (e.g. changed package/tariff) in order to make more affordable	Made changes to payment method for a service in order to continue to pay <sup>50</sup>	Reduced spend on other items in order to afford a service	Missed a payment for a service	Cancelled a service because could no longer afford it
<b>ANY SERVICE</b>	18%	11%	2%	5%	2%	4%
<b>Fixed broadband</b>	5%	4%	0.8%	NA	0.7%	0.5%
<b>Mobile</b>	6%	Minutes: 2% Data: 3%	1%	NA	1%	0.5%
<b>Mobile internet-only<sup>51</sup></b>	6%	Minutes: 2% Data: 3%	2%	NA	2%	0.7%
<b>Landline</b>	3%	2%	0.4%	NA	0.3%	0.4%
<b>Pay TV</b>	9%	6%	1%	NA	0.6%	3%
<b>On-demand streaming service</b>	6%	2%	0.9%	NA	0.4%	3%
<b>MULTIPLE SERVICES</b>	7%	4%	0.7%	NA	0.4%	0.5%

Source: Ofcom Covid-19 Affordability Tracker.

Base: UK decision makers aged 18+. Rolled data November 2020 – April 2021. Base includes both current and recent (i.e. cancelled in the month prior to interview) consumers. Any service (7191), Fixed broadband (5950), Mobile (6817), Mobile internet-only (733), Landline (5488), Pay TV (4293), On-demand streaming service (4798), Multiple services (7191). Note: 'Any' affordability issue includes all those shown in the table above. Some consumers experienced more than one affordability issue either within a given service and/or across multiple services. The nets for 'any affordability issue' only count each issue/service once.

<sup>50</sup> Examples provided in the question were: used savings or their overdraft when they wouldn't do usually; or taken a payment break agreed with their provider.

<sup>51</sup> Mobile internet-only households' are defined as those whose only method of accessing the internet is through a mobile phone or other mobile broadband device (for example a dongle or USB device).

### Some categories of households are more likely to have affordability issues<sup>52</sup>

- 3.16 When looking at indicators directly related to household finances we find that, in line with our previous research, households where decision makers were not working but looking for work were more likely to have experienced affordability issues (30% compared to 18% overall). The lowest income households were also more likely to have at least one communications affordability issue. Around a quarter of households earning less than £10,399 (28%) and those earning between £10,400 and £15,599 (26%) said they had experienced an issue.
- 3.17 When looking at government benefits, those in receipt of means-tested benefits (34%)<sup>53</sup>, means-tested benefits with no other income (31%)<sup>54</sup> and any benefits (26%) were all more likely than average to have at least one communications affordability issue. The lowest income households were also more likely to have at least one communications affordability issue. Around a quarter of households earning less than £10,399 (28%) and those earning between £10,400 and £15,599 (26%) said they had experienced an issue.
- 3.18 Other groups more likely to have at least one communications affordability issue, include households with a resident with an impacting or limiting condition (28%) and those with at least one child (24%). Age is also a factor, with 25% of younger decision makers (aged 18-24) and just over one-in-five 25-34s and 35-44s (both 22%) reporting affordability issues. Additionally, decision-makers who are Black (31%) or Asian<sup>55</sup> (29%) were more likely than average to experience an affordability issue.

### For fixed broadband, lower income households and those in receipt of at least one benefit were more likely than average to report an affordability issue

- 3.19 When considering broadband affordability issues, as shown below in table 5, financial indicators have a significant impact on experience of affordability issues. Households earning less than £10,399 and those reporting receiving a means-tested benefit (both 12%) were among those more likely than average to have experienced a broadband affordability issue. Those earning between £10,400 and £15,599 and those reporting means-tested benefits with no other earnings (both 10%) were also more likely to experience a broadband affordability issue.

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<sup>52</sup> Age, ethnicity and working status reflect the decision maker interviewed as we do not collect this data for all members of the household.

<sup>53</sup> Means-tested benefits include those in receipt of one or more of: Universal Credit (and household has no other earnings); Universal Credit (and household has other earnings); Income-based Jobseeker's Allowance ("JSA"); Employment and Support Allowance ("ESA"); and Income Support. The proportion of respondents allocated to individual means-tested benefits is lower than expected based on analysis of Department for Work and Pensions ("DWP") data. However, there are indications that these respondents *are* reflected in the overall sample. If we were able to categorise these respondents experience of affordability issues within benefits categories may differ to those stated. See Annex 2 (Consumer research technical annex) for further detail.

<sup>54</sup> Means-tested benefits with no other income include those in receipt of one or more of: Universal Credit, zero earnings; JSA; ESA; and Income Support.

<sup>55</sup> Black decision makers include those who stated that their ethnicity belonged to one of the following categories: Black African, Black Caribbean and Black other. Asian decision makers include those who stated that their ethnicity belonged to one of the following categories: Asian Indian, Asian Pakistani, Asian Bangladeshi, Asian Chinese and Asian other.

Table 5: Affordability issues experienced with fixed broadband in the last month<sup>56</sup>

	Any broadband affordability issue	Made changes to a service (e.g. changed package/tariff) in order to make more affordable	Made changes to payment method for a service in order to continue to pay <sup>57</sup>	Missed a payment for a service	Cancelled a service because could no longer afford it
Fixed broadband	5%	4%	0.8%	0.7%	0.5%
<£10,399 <sup>58</sup>	12%*	6%	3%*	2%	3%*
£10,400 - £15,599	10%*	5%	2%*	3%*	0.2%
£15,600 - £25,999	7%*	4%	2%*	2%*	0.4%
Receives at least one form of benefit	8%*	5%	2%*	2%*	1%*
Receives a means-tested benefit	12%*	6%*	3%*	3%*	1%*
Receives a means-tested benefit with zero other earnings	10%*	5%	2%*	3%*	0.9%
Resident with an impacting/limiting condition in the HH	8%*	4%	3%*	2%*	0.9%

Source: Ofcom Covid-19 Affordability Tracker.

Base: UK decision makers aged 18+. Rolled data November 2020 – April 2021. Base includes both current and recent (i.e. cancelled in the month prior to interview) consumers. Total fixed broadband (5950), Household

<sup>56</sup> An asterisk next to a percentage indicates that the proportion of individuals in the demographic group with this affordability issue is significantly higher than the average percentage across all respondents.

<sup>57</sup> Examples provided in the question were: used savings or their overdraft when they wouldn't do usually; or taken a payment break agreed with their provider.

<sup>58</sup> Analysis for the lowest household income category is indicative only as a third of respondents did not complete the income question. A higher percentage of the income non-respondents are from the DE socio-economic groups so affordability issues among this group could be higher than stated.

*income <£10,399 (204), Household income £10,400-£15,999 (306), Household income £15,600-£25,999 (595), Receives any means-tested benefit (688), Receives a means-tested benefit with £0 additional earnings (444), Receives any form of benefit (1471), Resident with an impacting/limiting condition in the household (584).*

**Note:** 'Any' affordability issue includes all those shown in the table above. Some consumers experienced more than one affordability issue with their fixed broadband service. The nets for 'any affordability issue' only count each issue once.

3.20 Some other households are also more likely on average to face broadband affordability issues. These include households with a resident with an impacting or limiting condition (8%) and decision-makers who are Black (9%). Decision-makers aged between 35 and 44, households from lower socio-economic groups (C2 and DE) and those with at least one child in the household (all 7%) were also more likely to have an affordability issue with their fixed broadband service. All of these groups were all more likely to have missed a payment or made changes to their payment method in order to afford their fixed broadband service.

### **Affordability for households that rely on mobile internet or do not have access to internet services**

3.21 Using results from our 2021 *Technology Tracker*, we estimate that there are **1.5 million**<sup>59</sup> households who currently only have access to a mobile internet connection at home (5%). Households where decision makers are aged 18-24 (10%), unemployed and seeking work (12%) or have an income below £11,500<sup>60</sup> (11%) are more likely than average to only have access to mobile internet. It is possible that that some of these households rely on mobile internet when they struggle to afford a fixed broadband service.

3.22 Furthermore, some households do not have access to the internet at home at all, with affordability a factor. We estimate around **100,000** households<sup>61</sup> do not have and are unlikely to get, an internet service in the next 12 months, at least partially due to the cost of the service.

3.23 The fact that some households are reliant on mobile internet and struggling to afford this (6% of mobile internet-only households) supports our view that affordability of mobile services is important and highlights the concern that some people cannot afford any internet access at all.

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<sup>59</sup> The error margin around this population estimate is +/- 300,000 households. These households state that they do not have access to fixed broadband in their household, but access the internet at home using mobile broadband from a mobile network, accessing the internet using their 3G/4G/5G mobile network or accessing the internet on a laptop or tablet using their mobile phone's internet connection (known as tethering).

<sup>60</sup> These income brackets are from the *Technology Tracker* survey, and differ from those noted above in the *Covid-19 Affordability Tracker* survey.

<sup>61</sup> This estimate uses the lower end of the error margin for this data point due to it being combined with other data sources, the mid-point estimate is 200,000 (+/- 100,000). See Annex 2 (Consumer research technical annex) for further detail. These households state that either broadband set up costs, the monthly cost of a fixed broadband service or the monthly cost of a mobile phone service is too high, as one of the reasons they do not have, and are unlikely to get, an internet service in the next 12 months.

## Data from fixed broadband providers on customer affordability issues

- 3.24 We have gathered information from fixed broadband providers on the number of customers that are experiencing payment difficulties for their fixed broadband. Indicators include, for example, those who have been unable to pay for their service for two or more months or who have been disconnected for non-payment.<sup>62</sup> These measures can be used as a proxy for those households who may be suffering the most serious affordability problems, which amount to potential loss of service.<sup>63</sup>
- 3.25 Based on this data, we have identified 370,000<sup>64</sup> households<sup>65</sup> across the period January 2020 – January 2021 that had serious difficulties paying for their service:
- In January 2021 around 70,000 households were in arrears by two or more regular payments for their fixed broadband service
  - From January 2020 – January 2021, around 300,000 households were disconnected for non-payment for their fixed broadband service<sup>66</sup>
- 3.26 This group of 370,000 households is an indication of the number of households who may have had severe affordability problems amongst those customers that were previously purchasing a service but then had difficulties paying for it.
- 3.27 We also find another group who were in arrears but currently considered to be at a lower risk of losing their service:<sup>67</sup>
- In January 2021 around 250,000 households were in arrears by one payment for their fixed broadband service

## Proportion of fixed broadband spend to income

- 3.28 Measuring the ratio of spend on fixed broadband to income can indicate the potential for affordability issues for different households, and has been used in other sectors.<sup>68</sup> For households on lower incomes, spending a relatively high proportion of disposable income on broadband is an indicator that they are at greater risk of experiencing affordability issues.

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<sup>62</sup> Who relate to those in group (b) and (c) of figure 3.

<sup>63</sup> Customer payment difficulties do not necessarily indicate to what degree communications services are unaffordable. A household may be financially vulnerable for a wide range of reasons, therefore even if fixed broadband bills were extremely low these households could still experience affordability problems, for example customers facing bankruptcy. On the other hand, it is possible that some households disconnected for non-payment may not necessarily have been unable to afford their communications service but may have chosen to prioritise spend elsewhere or they may have experienced short-term issues with the administration of their payment to the provider.

<sup>64</sup> All figures presented within this section are based on Ofcom analysis of provider data.

<sup>65</sup> For the purpose of residential fixed broadband, customers and households are assumed to be the same.

<sup>66</sup> We assume that no customer was disconnected more than once during this period.

<sup>67</sup> Our analysis of provider practices suggests that many providers only disconnected customers after they missed two or more regular payments. In addition, this measure may capture issues which are unrelated to affordability, such as short-term administrative issues with payment methods. See Ofcom, July 2021. [Call for inputs: Review of measures to protect people in debt or at risk of disconnection](#).

<sup>68</sup> For example, in the water sector. See Ofwat, December 2015. [Affordability and debt 2014-15](#).

- 3.29 In our analysis we concentrate on the 3.3m households in the lowest income decile, with Office for National Statistics (“ONS”) data suggesting they have incomes of up to around £14,000 a year.<sup>69</sup> As detailed in table 2, many targeted tariffs define eligibility using government benefits. Latest Department for Work and Pensions (“DWP”) figures indicate that most households in receipt of a Universal Credit payment received a monthly award which would not exceed this lowest decile threshold. Given that this includes households on zero earnings, and the benefit is tapered to ensure that overall income rises with hours worked, we therefore consider that a significant proportion of the 4m households on zero earnings benefits<sup>70</sup> fall within the lowest decile as they will receive no earnings outside of this award.
- 3.30 To calculate this proportion, we have used the following:
- **Household income.** The ONS provides the distribution of UK household income and spend on housing by decile. This enables us to calculate non-equivalised<sup>71</sup> disposable income after housing costs (AHC) are deducted, at a decile level.<sup>72</sup> The median household income of the lowest decile is £641/month, equivalent to under £8,000/year.
  - **Household spend on fixed broadband.** Here we use 2019 provider data<sup>73</sup> on spend on products with speeds of up to 55Mbit/s.<sup>74</sup> This data on broadband spend is not segmented by household income level. Accordingly, we have estimated the fixed broadband prices paid by lower income households by looking at spend by customers located in the top 10% most deprived geographic areas in the UK, as ranked by indicators of multiple deprivation (IMD). The median spend in these 10% most deprived areas was £27, which we use as a proxy for spend by the lowest income decile.<sup>75</sup>
- 3.31 Figure 6 shows that there is a step-change in the proportion of disposable income that the lowest income decile spends on fixed broadband. Table 7 shows that these households have an average disposable income (AHC) of £641 per month and spend 4.2% of it on fixed broadband.<sup>76</sup> This proportion is significantly higher than any other income decile, and well above the 1.2% that applies to the median household. This pattern arises because the

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<sup>69</sup> [ONS](#), 2021, table 14. These incomes are given in equivalised terms, therefore is likely an underestimate of the threshold for being within the lowest income decile.

<sup>70</sup> Mainly constituting those in receipt of Universal Credit who are out of work but also inclusive of equivalent legacy benefits such as Income Support, Employment and Support Allowance (income-version) and Jobseeker’s Allowance.

<sup>71</sup> This is income un-adjusted for household composition, which is necessary when deducting spend, as spend figures are given in non-equivalised terms.

<sup>72</sup> Housing benefit and council tax are removed, as they are accounted for in disposable income. Includes spend on rent, mortgage, purchases and dwelling alterations.

<sup>73</sup> For more details on the dataset used, please refer to the below section, ‘Actual amounts paid for fixed broadband’.

<sup>74</sup> Spend only on these products is used as we are considering whether entry-level broadband services offering a decent connection are affordable for households.

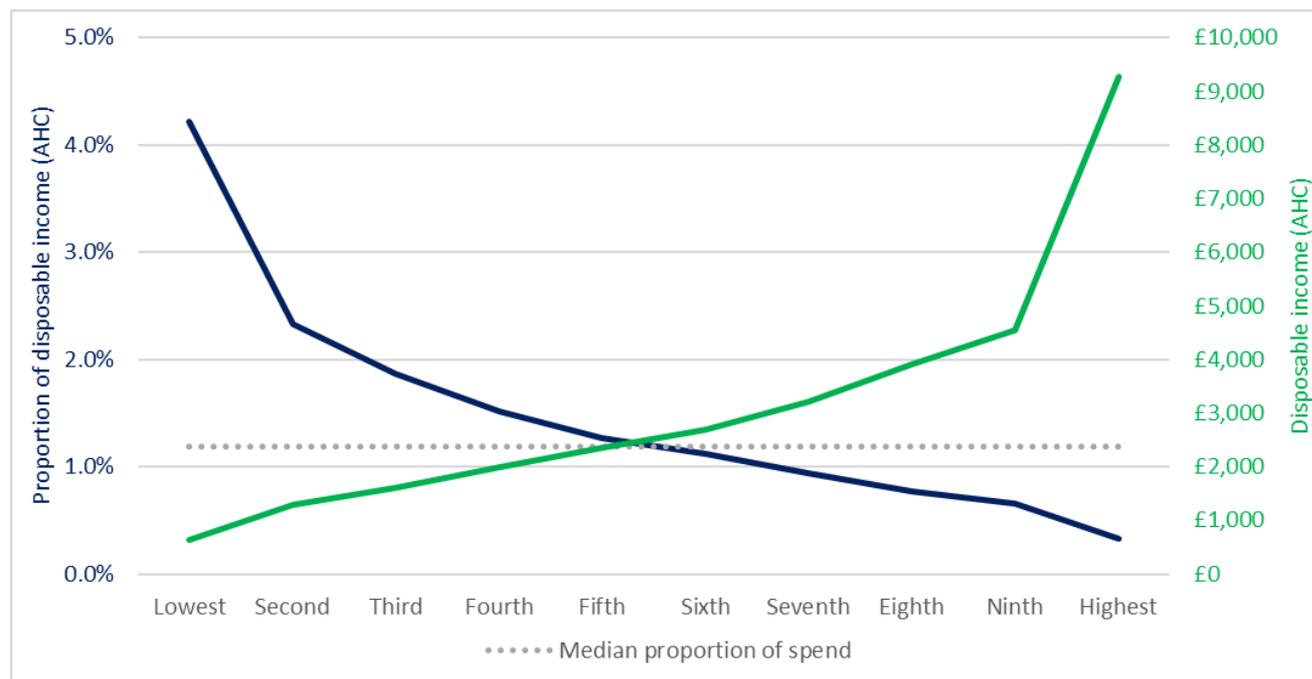
<sup>75</sup> The median spend for the 90% of higher income households is £30, which we use as a proxy for spend for all income deciles above the lowest 10%.

<sup>76</sup> This is similar in magnitude to Ofwat’s findings in the water sector where they found 11% of households were spending over 5% of their disposable income (AHC) on water. See Ofwat, December 2015. [Affordability and debt 2014-15](#).

lowest decile has substantially lower incomes but spends a broadly similar amount on fixed broadband.

3.32 This analysis uses the **average** disposable income of the lowest income decile; therefore, proportion of spend (AHC) may be substantially higher for households with lower than average income within this decile. An example of a household in this situation may be a Universal Credit single claimant under the age of 25, who when receiving only the standard allowance would receive £344 per month before housing costs.<sup>77</sup>

**Figure 6: Proportion of disposable income spend on fixed broadband, by decile, after housing costs**



Source: [ONS income data \(2020\)](#), [ONS expenditure data \(2020\)](#) and provider data (2019).

<sup>77</sup> [Gov.uk, 2021, Universal Credit - What you'll get.](#)

Table 7: Proportion of disposable income spent on broadband, by decile, after housing costs

Spend/Income	Lowest	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Highest	Median
Disposable income	£907	£1,737	£2,114	£2,538	£2,970	£3,409	£3,951	£4,686	£5,557	£10,565	£3,190
Housing	(£267)	(£448)	(£504)	(£557)	(£610)	(£721)	(£743)	(£776)	(£1,006)	(£1,293)	(£665)
Disposable income (AHC)	£641	£1,290	£1,610	£1,982	£2,360	£2,688	£3,208	£3,910	£4,551	£9,272	£2,524
Average Spend	£27	£30	£30	£30	£30	£30	£30	£30	£30	£30	£30
Spend as % of disposable income (AHC)	4.2%	2.3%	1.9%	1.5%	1.3%	1.1%	0.9%	0.8%	0.7%	0.3%	1.2%

Source: [ONS](#) income data (2020), [ONS](#) expenditure data (2020) and provider data (2019).

- 3.33 The picture is even clearer if we look at disposable income after accounting for a wider range of essential expenditures than housing alone. As described in Annex 1 (Measuring affordability), we find that deducting a basket of additional essential spend items from disposable income means that the average lowest decile household would spend around 19% of their remaining income on a fixed broadband tariff, which is ten times higher than the percentage the average household would spend (1.3%) after deducting other essential spend. It is also over four times more than the second decile would spend (4.1%) as a proportion of remaining income.
- 3.34 This evidence supports our view that affordability issues are most likely to arise for those on lowest incomes. We also consider that this income group provides a useful benchmark for evaluating how affordable different targeted tariffs are likely to be, which we discuss in the chapter below under 'Affordability of commercial and targeted tariffs'.
- 3.35 The finding that lower income deciles are most at risk of experiencing affordability issues is largely driven by differences in disposable income: spend on broadband is similar across households, but disposable income (AHC) is significantly lower for the lowest and second deciles. Hence, while this analysis focuses on fixed broadband, given that the disposable income levels are consistent, we would expect that lowest income deciles may also be most at risk of experiencing affordability issues for other important communications services whose prices remain broadly similar across all customers.

## Estimation of number of households with internet access affordability issues

**Based on our analysis, we consider that a significant minority of households are currently facing affordability issues**

- 3.36 Our consumer research indicates that in the past month around **4.2 million households**<sup>78</sup> reported an affordability issue with at least one communications service.
- 3.37 We also estimate that in the past month around **2 million households** reported an affordability issue in relation to internet access. These are made up of:
- around **1.9 million households**<sup>79</sup> that reported an affordability issue with their fixed broadband and/or mobile internet (smartphone) services in the past month; and
  - around **100,000 households**<sup>80</sup> that do not have internet at least partially due to cost in the past month.
- 3.38 Consistently with the above, provider data suggests that there were at least 370,000 households who may have experienced severe affordability issues between January 2020 – January 2021.<sup>81</sup>

**Focusing on fixed broadband, our analysis indicates that around 3.3m households in the lowest income decile are most at risk of experiencing affordability issues with their fixed broadband**

- 3.39 As noted, the figures above help to estimate the number of households experiencing affordability problems for communications services at a specific point in time. To estimate the number of households that are at risk of experiencing affordability issues (rather than just at a specific point) we compared the proportion of income spend on fixed broadband across different income levels. This analysis shows that those in the lowest income decile – around 3.3m households – spend a significantly higher proportion of their income on broadband and are therefore most at risk of affordability problems. In addition, our analysis below indicates that where these households do suffer affordability issues, they are less likely to be able to resolve them by shopping around for cheaper commercial offerings.

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<sup>78</sup> The error range around this population estimate is +/- 500,000 households. This population estimate uses latest monthly data (April) among all UK households as opposed to the average proportion across all waves of research (15% vs. 18%).

<sup>79</sup> The error margin around this population estimate is +/- 500,000 households. This population estimate uses latest monthly data (April) among all UK households as opposed to the average proportion across all waves of research. This is a net of experiences as some households experienced affordability issues with both broadband and mobile services, in the last month. See Annex 2 (Consumer research technical annex) for further detail.

<sup>80</sup> This estimate uses the lower end of the error margin for this data point due to it being combined with other data sources, the mid-point estimate is 200,000 (+/- 100,000). See Annex 2 (Consumer research technical annex) for further detail. These households state that either broadband set up costs, the monthly cost of a fixed broadband service or the monthly cost of a mobile phone service is too high, as one of the reasons they do not have, and are unlikely to get, an internet service in the next 12 months.

<sup>81</sup> This figure considers those who have been disconnected and those who are in arrears by 2 or more payments.

## 4. The role of targeted discounted tariffs

4.1 Having estimated the number of households with broadband affordability issues, in this chapter we analyse what can be done to address them:

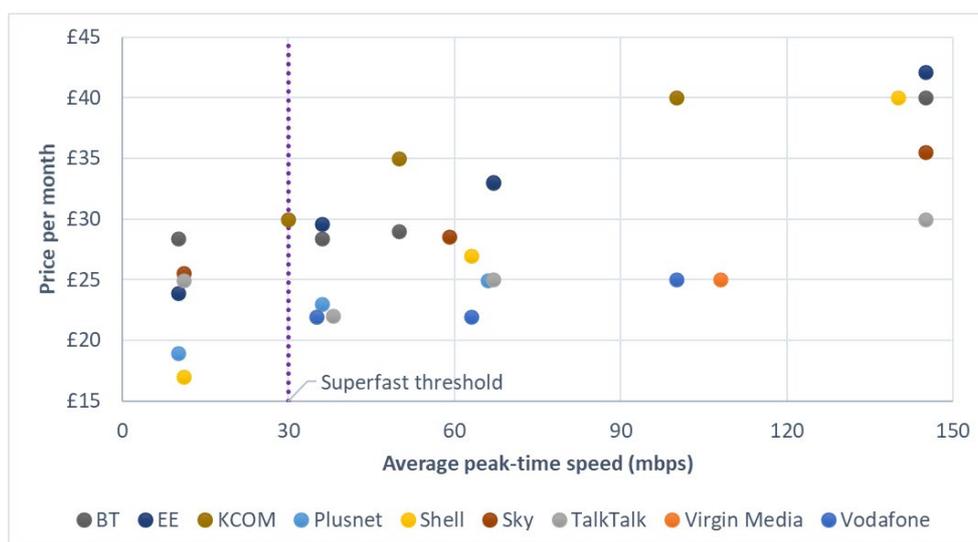
- First, we review the broadband tariffs that are available to, and taken by, all consumers.
- Second, we review the targeted tariffs that are currently being offered by broadband and mobile providers.
- Third, we consider how the price and other design features of these targeted tariffs affect the support they offer to households on low incomes.

### Tariff pricing for all broadband consumers

#### Cheapest commercially available broadband tariffs

4.2 We have gathered data on the cheapest available in-contract tariff prices offered by providers during June 2021. As shown in figure 8, most standard broadband tariffs are around £25 per month or higher. Only two smaller providers have introductory tariffs that cost less than £20 per month. Moreover, standard broadband is purchased by a minority of consumers and is declining rapidly, with superfast broadband increasingly seen as a common entry level product.<sup>82</sup>

Figure 8: Cheapest fixed broadband (in-contract) prices, by advertised speed: June 2021<sup>83</sup>



<sup>82</sup> In 2020, approximately 78% of residential connections were superfast. We forecast the proportion of customers on superfast speeds or above to increase to 96% by 2025. See [Ofcom UK Home Broadband Performance 2020](#).

<sup>83</sup> KCOM is included along with national providers as it has a near monopoly at both the wholesale and retail level in the Hull Area.

Source: Ofcom/Pure Pricing's UK Monthly Broadband Pricing Tracker June 2021 and [KCOM](#) [accessed at 15 July 2021].

- 4.3 The cheapest superfast broadband tariffs are priced at around £22 per month, with only TalkTalk and Vodafone offering introductory tariffs at this level. Of the three largest broadband providers<sup>84</sup>, Sky, BT and Virgin Media all offered superfast tariffs priced between £25 and £29 per month. Therefore, it is likely that any lowest decile households taking new contracts or re-contracting with these providers will be spending around or more than the £27 per month we identified would cause a step-change in the proportion of disposable income spend (AHC).
- 4.4 Some caveats to this data include:
- To access such prices, consumers must commit to a minimum contract period (typically between 18 and 24 months).
  - Such promotional tariffs may not always be available to re-contracting customers, who may be paying higher prices.<sup>85</sup>
  - These prices do not take account of the fact that consumers may incur set-up charges, and these may vary between tariffs and providers.<sup>86</sup>

## Actual amounts paid for fixed broadband

- 4.5 We have analysed provider data to establish the level of prices customers are actually paying for fixed broadband.<sup>87</sup> This includes analysis of tariffs taken by new customers as well as customers who have re-contracted or are out-of-contract with their providers.<sup>88</sup>
- 4.6 This data shows only the prices actually paid by households; it does not identify the income of the households. In order to estimate the level of prices paid by lower income households we filtered the data to look at dual-play prices for customers within the top 10% most deprived areas, as a proxy for the lowest income decile.
- 4.7 Table 9 shows that households in the most deprived areas spend less on average on fixed broadband than households in the rest of the UK.<sup>89</sup> However, the amounts paid are on average significantly above the cheapest tariffs currently available commercially, and this applies for all speed bands. Accordingly, there appears scope for all consumers on average,

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<sup>84</sup> See Ofcom's [Communications Market Report 2020, Telecoms: Fixed](#).

<sup>85</sup> Ofcom, July 2020. [Helping consumers get better deals: Review of pricing practices in fixed broadband](#), page 21, table 3.

<sup>86</sup> We find that many providers currently offer promotional free set-up and activation. However, some providers charge upfront fees which are similar in cost to one month's subscription charge. For example, in June 2021, BT, EE and Sky charged £10 to set-up a dual-play service, while KCOM charged £25.

<sup>87</sup> We use the same sources that underpinned Ofcom's July 2020 report: [Helping consumers get better deals: Review of pricing practices in fixed broadband](#).

<sup>88</sup> As detailed in Annex 1 (Measuring affordability), we focused on monthly broadband prices for dual-play only, excluding any upfront and/or additional fees. This review was informed by customer-level data for September 2019 from each of the six largest UK broadband providers: BT, EE, Plusnet, Virgin Media, Sky and TalkTalk. Collectively these providers accounted for around 90% of fixed broadband customers in the UK in 2019. See Ofcom's [Communications Market Report 2020, Telecoms: Fixed](#).

<sup>89</sup> The pattern of take-up of fixed broadband by speed band is broadly similar in the most deprived areas as in the rest of the UK. For example, 34% of customers in the most deprived areas take a standard broadband <30Mbit/s product, only moderately higher than the 30% that applies in the rest of the UK.

including those with lower incomes, to obtain a better deal by shopping around. Ofcom wants broadband customers to be able to shop around with confidence and we have introduced several measures in recent years to further help customers engage to get better details.<sup>90</sup>

**Table 9: Average monthly broadband price per speed across income groups**

Speed band	Average monthly broadband price across customers outside top 10% most deprived areas	Average monthly broadband price across customers within top 10% most deprived areas	Cheapest tariffs currently available on the market
<30Mbit/s	£30	£26	£17
30-55Mbit/s	£35	£31	£22
56-100Mbit/s	£45	£39	£22
All speeds	£37	£32	-

Source: Ofcom analysis of provider data.

## Targeted tariffs currently available for financially vulnerable households

- 4.8 For customers on the lowest household incomes, engaging with the market to secure a better deal may not be sufficient to prevent affordability problems: even the cheapest commercially available prices set out above may remain unaffordable. This is likely to include some who have services but are struggling to afford them, and others who do not have the service at all because of affordability problems. In these cases, targeted tariffs can provide valuable support by offering lower prices (to a specified group of eligible consumers) than those that are otherwise commercially available. To protect all customers who are in contract but facing affordability problems, all providers would need to offer some form of targeted tariff and allow customers to use this without paying an early termination charge.
- 4.9 As set out in table 10 below, six providers already offer targeted tariffs that are cheaper compared to commercially offered products at equivalent speeds. All of these tariffs are new (or have some revised features) since our December 2020 report. Each provider below offers a targeted tariff that gives a potential saving of £7 - £27 per month when compared to their own cheapest equivalent commercially available products. They all offer targeted tariffs that are priced lower than the cheapest equivalent UK-wide commercially available products, with discounts ranging from £2 - £10 per month.

<sup>90</sup> These include the requirement for customers to be told when their contract is coming to an end and shown the best deals available with end-of-contract and annual best tariff notifications, work on simpler switching and making data work for consumers, our [Treating vulnerable customers fairly](#) guide and voluntary measures to support vulnerable out-of-contract customers through our [Review of pricing practices in fixed broadband](#).

Table 10: Targeted internet tariffs offered by communications providers

Provider	Price	Speed	Eligibility <sup>91</sup>	Call allowance	Discount against provider's cheapest equivalent	Discount against cheapest market-wide equivalent <sup>92</sup>
<a href="#">BT Home Essentials</a> <sup>93</sup>	£15	36Mbit/s	Universal Credit ("UC"), Jobseeker's Allowance ("JSA"), Employment Support Allowance ("ESA"), Pension Credit (Guarantee Credit)	700 minutes	£23 per month	£10 per month <sup>94</sup>
<a href="#">BT Home Essentials 2</a>	£20	67Mbit/s		Unlimited minutes	£27 per month	£5 per month
<a href="#">Community Fibre</a> <sup>95</sup>	£10	10Mbit/s	UC, Income-based JSA, Income-related ESA, Housing Benefit, Personal Independent Payment ("PIP")	N/A	£10 per month	£7 per month
<a href="#">Hyperoptic Fair Fibre 50</a> <sup>96</sup>	£15	50Mbit/s	UC, Income-related JSA, Income-related ESA, Pension Credit, Housing Benefit, PIP	N/A (free evening and weekend calls can be added for £3 a month)	£7 per month	£7 per month
<a href="#">Hyperoptic Fair Fibre 150</a>	£25	150Mbit/s			£10 per month	£5 per month

<sup>91</sup> The criteria listed here are not exhaustive for all providers. Full lists are provided on the websites linked to in the table.

<sup>92</sup> Prices are compared to the cheapest UK-wide commercially available tariff in the equivalent speed bracket (e.g. standard, superfast, ultrafast) as given by *Pure Pricing's UK Monthly Broadband Pricing Tracker June 2021*.

<sup>93</sup> BT and KCOM both also offer a regulated landline-only social tariff. BT Home Essentials landline only offers unlimited calls for £10 a month. KCOM's Flex Call Only offers 20 local calls and 60 minutes to 0845/ 0870 numbers for £5.10 a month, with a £10 spend cap once the inclusive call allowance has been reached.

<sup>94</sup> This is compared to the cheapest tariff offering unlimited minutes, therefore likely overstates the relative discounting.

<sup>95</sup> These products are only open to applications for a specified period: Community Fibre's is open until the end of July 2021 and VOXI's is open until the end of September 2021.

<sup>96</sup> Hyperoptic also offers dual-play tariffs, which are £3 per month more than the broadband only tariffs in the table.

Affordability of communications services: Summary of findings

<a href="#">KCOM Full Fibre Flex</a>	£19.99	30Mbit/s	UC zero earnings, JSA, Income-related ESA, Income Support (“IS”), Pension Credit, Housing Benefit, PIP	20 local calls and 60 mins to 0845/0870, with £10 cap	£10 per month	£2 per month <sup>97</sup>
<a href="#">Virgin Media Essential broadband</a>	£15	15Mbit/s	UC	N/A	£10 per month <sup>98</sup>	£2 per month
<a href="#">VOXI For Now</a> <sup>95</sup>	£10	5G where available	UC (employment based), JSA, ESA	Unlimited minutes, unlimited texts	£25 per month	£5 per month

Source: Ofcom/Pure Pricing's UK Monthly Broadband Pricing Tracker June 2021/Pure Pricing's UK Monthly Mobile Pricing Update July 2021, [KCOM](#), [Virgin Media](#), [BT \(targeted tariff\)](#), [BT \(provider equivalent\)](#), [Community Fibre](#), [VOXI](#) and [Hyperoptic](#) [accessed at 15 July 2021]. Note: Discounts are rounded to the nearest whole number.

<sup>97</sup> This product offers a £10 per month discount on commercial pricing available in the Hull Area.

<sup>98</sup> Virgin Media does not offer a comparable commercial standard speed product, so is compared to their cheapest superfast broadband tariff.

## Eligibility criteria

- 4.10 These targeted tariffs take varying approaches to setting eligibility criteria, with some providers (such as VOXI) offering tariffs aimed at households in receipt of out of work (or zero earnings) benefits, while other providers (such as BT, Community Fibre, Hyperoptic and KCOM) focus on households on a broader range of means-tested benefits, covering those in or out of work. Virgin Media’s tariff is available to households in receipt of Universal Credit, which includes households that are in and out of work. Some of these tariffs extend eligibility to those on non means-tested benefits for vulnerable households, such as Personal Independence Payment (“PIP”).
- 4.11 As shown in table 11, analysis of DWP data suggests that around 4 million households are in receipt of zero earnings benefits. Office for Budget Responsibility (“OBR”) estimates suggest that the full current caseload of households on means-tested benefits is around 7 million<sup>99</sup> (which includes those on zero earnings benefits). This figure is currently around 1 million higher than the pre-Covid-19 counterfactual.<sup>100</sup>

**Table 11: Indicative eligibility estimates for current targeted tariff eligibility criteria**

Eligibility	Size of group
Out of work benefits	4m households
All means-tested benefits	7m households
All benefits	>7m households

Source: Ofcom estimates based on analysis of [OBR/DWP](#) data.

- 4.12 OBR estimates expect the means-tested benefit caseload rise slightly towards the end of 2021 as furlough ends<sup>101</sup>, then to fall in line with unemployment in the longer-term. This indicates that a significant amount of the 1 million household increase is driven by those who are currently out of work and are forecasted to regain employment in the future. A reduction of this kind would mean the eligible group would be similar to the size of the lowest income decile, which we identify are most at risk of experiencing affordability problems. Many targeted tariffs currently being offered have eligibility criteria that may extend support to a population wider than those households in the lowest decile such as all households on means-tested benefits. This can offer support to a broader group of customers.

## Geographic availability of targeted tariffs

- 4.13 These tariffs are only available to those households in areas covered by the providers listed in table 10. For example, in the Hull Area households with access to fibre services can only

<sup>99</sup> This figure may be a slight overestimate, as the definition used in OBR statistics is that of a ‘benefit unit’ which is a single adult or a married or cohabiting couple and any dependent children. For example, a non-dependent adult living with their parents would be two benefit units but only one household.

<sup>100</sup> OBR, March 2021. [Welfare trends report](#), chart 3.2.

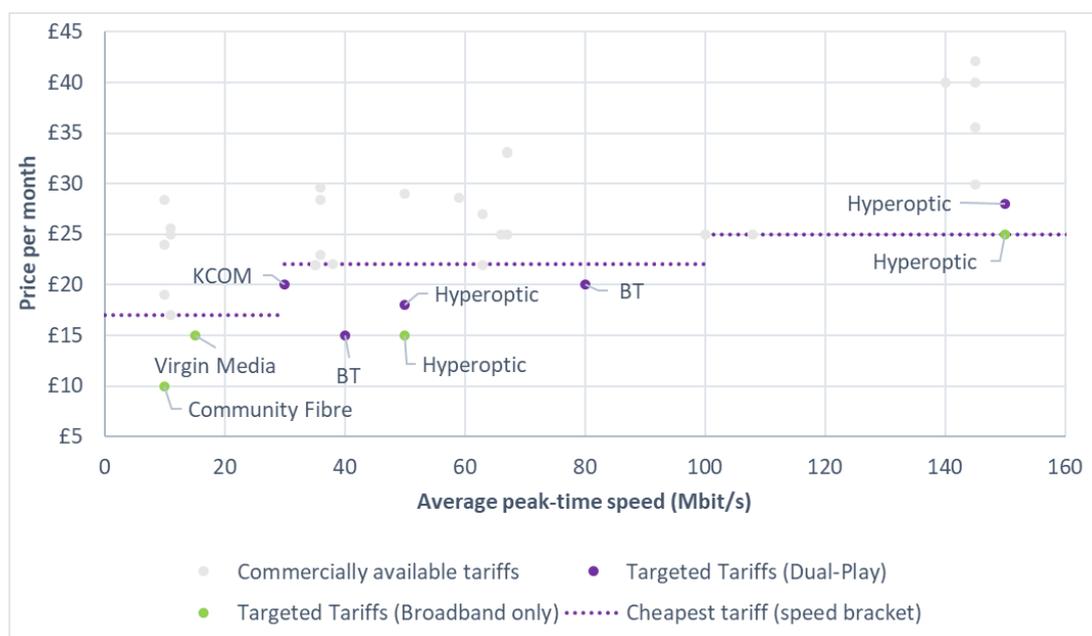
<sup>101</sup> The UK unemployment rate increased by 0.8 percentage points (to 4.8%) from the previous year in the period between January and March 2021. Looking forward, the OBR (in its central forecast) predicts the unemployment rate to peak at 6.5% in the fourth quarter of 2021.

access one fixed broadband targeted tariff, offered by KCOM. In addition, there are households outside Community Fibre, Hyperoptic and Virgin Media’s coverage footprint who may only be able to access one fixed broadband targeted tariff, offered by BT. VOXI’s mobile internet tariff is also dependent on coverage. While only 1% of UK premises are not able to access 4G coverage indoors from at least one operator, this rises to 7% when considering only Vodafone<sup>102</sup> network coverage.<sup>103</sup> In addition, Vodafone 5G coverage used by the VOXI targeted tariff is currently available in around 100 towns and cities across the UK.

### Comparison of targeted tariffs to commercial tariffs

4.14 The price and speed of these products vary. For example, the speeds delivered by these products range from Community Fibre’s 10Mbit/s product to Hyperoptic’s 150Mbit/s product. In general, higher speed products cost more relative to lower speed products. Figure 12 depicts the placement of targeted tariffs when compared to the pricing and average peak time speeds of major providers’ commercially available offers. It shows that when considering different broadband speed brackets, all apart from one of these tariffs are priced below the best commercially available products (which are represented with the purple dotted line).<sup>104</sup>

**Figure 12: Cheapest fixed broadband (in-contract) prices including targeted tariffs, by advertised speed: June 2021**



Source: Ofcom/Pure Pricing’s UK Monthly Broadband Pricing Tracker June 2021, [KCOM](#), [Virgin Media](#), [BT](#), [Community Fibre](#) and [Hyperoptic](#) [accessed at 15 July 2021].

<sup>102</sup> VOXI is a sub-brand of mobile network operator Vodafone.

<sup>103</sup> Ofcom, May 2021. [Connected Nations Update: Spring 2021](#).

<sup>104</sup> These speed brackets are (0-30Mbit/s, 30-100Mbit/s and 100+ Mbit/s). This comparison focuses solely on advertised broadband speeds and does not factor in call allowances.

- 4.15 As detailed in Annex 1 (Measuring affordability), households within top 10% most deprived areas take a wide range of broadband services. This suggests that offering a set of targeted tariffs at different speeds may be beneficial in meeting the needs of a larger group of customers.

## Affordability of commercial and targeted tariffs

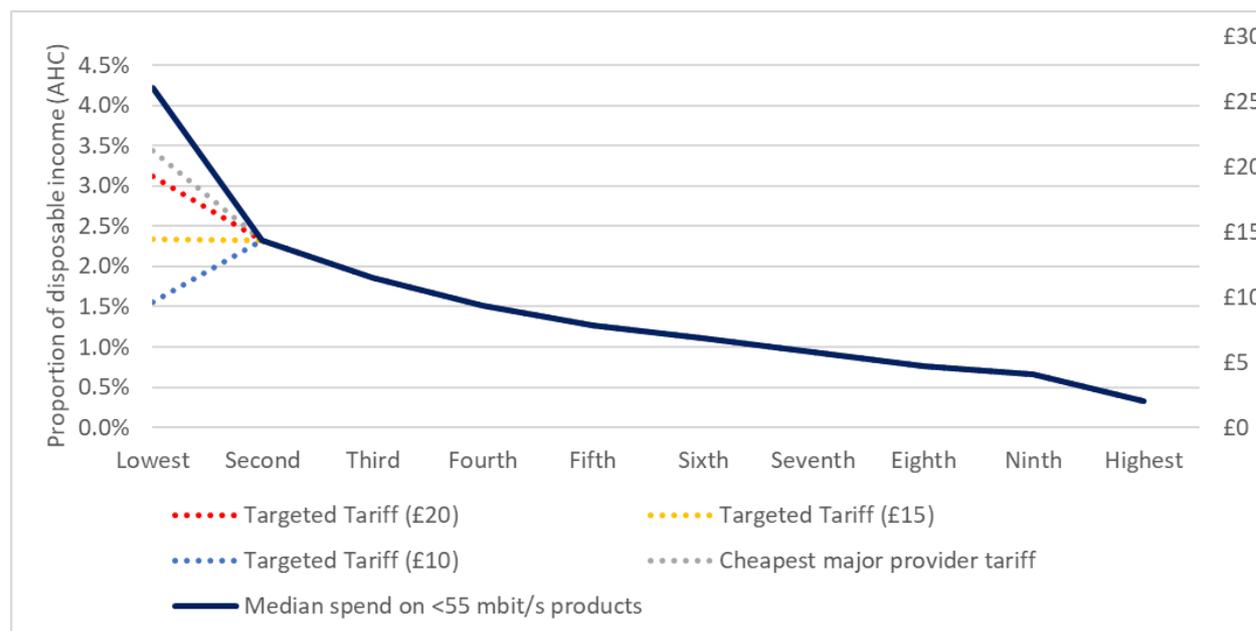
### Fixed broadband

- 4.16 Our analysis of fixed broadband services suggests that at commercially available prices, affordability problems are likely to be most acute within the lowest household income decile. We have therefore evaluated the available tariffs by looking at the proportion of disposable income for the lowest decile that those tariffs would account for.
- 4.17 Looking first at the actual spend on commercial tariffs, the lowest decile spends a median amount of £27 per month, representing 4.2% of monthly disposable income (AHC), whilst a £22 per month spend on the cheapest available tariff from a major provider<sup>105</sup> would represent 3.3% of lowest decile monthly disposable income (AHC). Accordingly, even if low income customers were to shop around and obtain the lowest available tariffs offered by a major provider, this would continue to result in those on low incomes spending a higher proportion of their disposable income on broadband than higher income deciles.
- 4.18 Targeted tariffs offer a better deal for those lower income consumers eligible for them. The cheapest entry-level targeted tariff currently available from providers are £10 from Community Fibre (and, as noted below, VOXI in the mobile sector), £15 (BT, Virgin Media, Hyperoptic), and £19.99 (KCOM). To understand the impact that such prices can have, figure 13 below shows how tariffs priced at £10, £15 and £20 per month would affect spend to income relationships for lowest income decile households.

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<sup>105</sup> We refer to a major provider as one of the four largest fixed broadband providers (BT, Sky, TalkTalk and Virgin Media). See Ofcom's [Communications Market Report 2020, Telecoms: Fixed](#).

Figure 13: Targeted tariff pricing, proportion of disposable income spend (AHC) by decile



Sources: [ONS](#) income data (2020), [ONS](#) expenditure data (2020), provider data (2019), Ofcom/Pure Pricing's UK Monthly Broadband Pricing Tracker June 2021.

Notes: We assume that the lowest decile spends £27, which was the median spend within the 10% most deprived areas, while assuming all other deciles spend £29.99, which was the median spend outside these areas. We use the cheapest major provider tariff of £22 per month offered by TalkTalk.

4.19 This suggests following impacts on households in the lowest income decile:<sup>106</sup>

- A targeted tariff **priced at £20 per month** would provide a saving (10%) relative to commercially available tariffs, allowing households in the lowest income decile to spend a lower proportion of their disposable income (AHC) on a fixed broadband service (c.3.0%).
- A targeted tariff **priced at £15 per month** would provide a substantial saving (35%) relative to commercially available tariffs, allowing households in the lowest income decile to spend a similar proportion of their disposable income (AHC) on a fixed broadband service as the average second decile household (c.2.3%).
- A targeted tariff **priced at £10 per month** would allow households in the lowest income decile to save over 50% relative to commercially available tariffs and spend a similar proportion of their disposable income (AHC) on a fixed broadband service as the average fourth decile household (c.1.5%).

4.20 As we set out above, there are households who have lower disposable incomes than the average for the lowest income decile, therefore it is possible that even tariffs priced between £10 - £20 may have limited impact on the ability of these households to afford a fixed broadband service.

<sup>106</sup> For more details please refer to Annex 1 (Measuring affordability).

4.21 This analysis is based on comparing prices to household incomes organised by decile. It is illustrative, as income deciles cannot be matched directly onto the distribution of means-tested benefits, and therefore does not directly show the impact of any current targeted tariffs.<sup>107</sup> As outlined above, we consider that a significant proportion of the 4 million households on zero earnings benefits<sup>108</sup> fall within the lowest decile. Therefore, the impacts of these tariffs on households who are in receipt of such benefits may be consistent with those outlined above.

## Mobile internet access

- 4.22 Mobile services are the only source of internet access for around 1.5 million households. Our evidence shows that 6% of mobile customers have affordability issues with their services, including 6% of mobile internet-only households. Given this evidence, and the similar levels of affordability issues for these customers to broadband customers, we think that targeted tariffs in the mobile sector can play an important role in helping households access the internet.
- 4.23 Vodafone's VOXI brand offers a targeted tariff offering unlimited 5G data, calls and texts for £10 per month. VOXI's 'For Now' tariff is open to people on a range of employment-based benefits.<sup>109</sup> As with most current fixed broadband targeted tariffs, customers have flexibility and can leave the tariff without charge. Unlike most of the fixed broadband targeted tariffs currently being offered, VOXI's product is available for a specified period only: customers can use it for up to six months, and the product is currently open to new applications until 30 September 2021.<sup>110</sup>
- 4.24 As shown in figure 14, the 'VOXI For Now' tariff offers a £25 monthly discount compared to VOXI's equivalent commercially available product and is priced at £5 per month less than the cheapest commercially available equivalent from any provider across the contract period.<sup>111</sup> Tariffs at such price levels offer more affordable options and may be particularly beneficial for mobile internet-only households.

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<sup>107</sup> Within a process for confirming eligibility, we recognise that there may be trade-offs between achieving this in a timely and proportionate manner and being able to precisely target support at households that are most struggling to afford services. In this context, we recognise that it may not be practical to assess eligibility based on the income decile groupings used in our analysis.

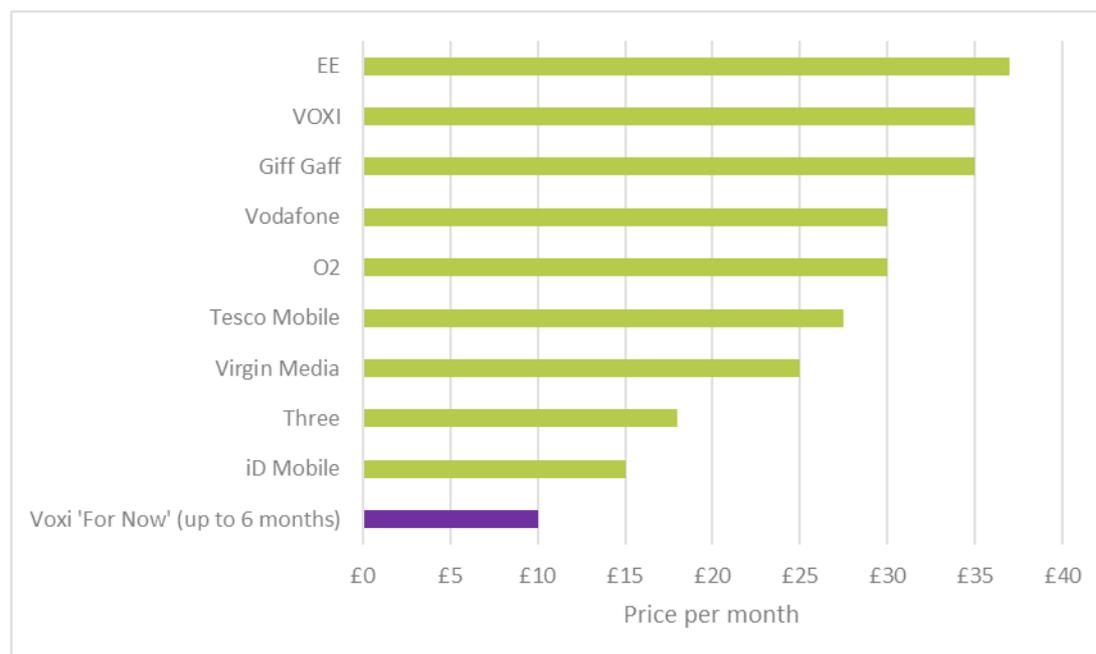
<sup>108</sup> Mainly constituting those in receipt of Universal Credit who are out of work but also inclusive of equivalent legacy benefits such as Income Support, Employment and Support Allowance (income-version) and Jobseeker's Allowance.

<sup>109</sup> This is defined by [VOXI](#) as people on "Jobseeker's Allowance, or Employment and Support Allowance, or Employment-based Universal Credit".

<sup>110</sup> Customers can leave this service at any time. After six months, customers are moved onto a £10 product with 6GB data plus social media access.

<sup>111</sup> All tariffs listed here except the 'VOXI for now' tariff offer contract periods for 12 months or longer. Prices which offer promotional discounts for part of the mandatory contract period have been weighted to reflect the average price paid over this period.

Figure 14: Cheapest mobile 5G SIM-only (in-contract) prices offering unlimited data: July 2021



Source: Ofcom/Pure Pricing's UK Monthly Mobile Pricing Update July 2021.

### Targeted tariffs: other design features

- 4.25 Actual take-up of targeted tariffs offering internet access has been limited, with only around 40,000 households actively taking up one of these tariffs in January 2021. This represents around 0.15% of all UK households, or around 1% of UK households in receipt of zero earnings benefits.<sup>112</sup> We expect take-up to increase, in part because some new products have recently been launched which low income customers may find more compelling compared to previously available tariffs. Nonetheless, these levels of take-up underline the importance of other factors beyond price and eligibility in determining the effectiveness and take-up of targeted tariffs. Such features include, but are not limited to: customer awareness, the specification of the service, and other up-front costs. These are discussed in more detail below.
- 4.26 At an industry-wide level, we expect that support would be more effective where it is offered by all major providers. Benefits of broader provision include, but are not limited to:
- **Allowing all customers with affordability problems while in contract to access targeted tariffs.** Currently where customers are in contract with a provider that does not offer a targeted tariff, the only way they can access a targeted tariff is by moving to another provider, which is likely to incur early termination charges.
  - **Offering choice.** In some parts of the UK, providers' geographic coverage means that households will only have a choice of one fixed broadband targeted tariff based on current provision.

<sup>112</sup> This is based on Ofcom estimates of the number of households in receipt of zero earnings benefits using DWP data.

- **Supporting mobile only customers.** For customers who access the internet only through their mobile phone, there are benefits to being able to access a range of mobile targeted tariffs.

#### **Tariffs should be well promoted to raise awareness among people who could benefit from them**

- 4.27 To benefit from targeted tariffs, customers need to be aware of them. There are many ways providers can raise awareness, including actively promoting targeted tariffs and making it easy and intuitive for customers to find information. The current low take-up levels of targeted tariffs suggest that customer awareness of such tariffs may be low.
- 4.28 Active promotion can include notifying all customers of support available, as well as specifically targeting information at customers who providers believe are most likely either to have affordability problems or to be eligible. Targeted approaches can include working with partner organisations, such as debt charities or advice services, that are likely to work with people who face affordability problems.<sup>113</sup>
- 4.29 To assist customers who are seeking help with their bills, providers should make it easy to find information about their tariffs across different channels. As well as providing clear and relevant information, providers should recognise how people are likely to look for support in practice, and make targeted tariffs easy to find, for example, from the home page of their websites.
- 4.30 We also recognise that there are complex behavioural issues that can affect how many consumers take up targeted tariffs and we encourage providers to continue to explore ways they can make their tariffs more effective at reaching their intended audience. This could include, for example, running experiments to understand the impact of behavioural biases on consumer outcomes or to test the effectiveness of behaviourally informed communications. Ofcom may approach providers to explore working together on this in future.

#### **The service offered by targeted tariff products should meet the needs of users and have no monthly cap on data use**

- 4.31 Internet connections now underpin many elements of people's lives, ranging from job interviews or health appointments, to online learning or shopping. Targeted tariffs should therefore offer a sufficient speed to meet these needs and ensure that households do not run out of data.
- 4.32 The broadband USO includes a definition of decent connection that can deliver 10Mbit/s download speed and 1Mbit/s upload speed (along with other defined quality parameters).<sup>114</sup> It also contains a provision to review the technical specification when the uptake of superfast broadband (30Mbit/s or more) reaches at least 75% of UK premises.

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<sup>113</sup> Our *Treating vulnerable customers fairly* guide sets out some best practice recommendations providers could adopt to help customers who are at risk of disconnection, such as offering tariff advice, including targeted tariffs where they are available. See Ofcom, July 2020. [Treating vulnerable customers fairly: A guide for phone, broadband and pay-TV providers](#).

<sup>114</sup> See Ofcom, June 2019. [Delivering the Broadband Universal Service Statement: Designating Universal Service Providers and setting conditions](#).

- 4.33 As detailed in Annex 1 (Measuring affordability), our analysis of provider data shows that the fixed broadband speeds currently being taken are broadly similar across income groups, suggesting that speed preferences may not strongly depend on income level. The analysis further indicates that across income groups the majority of customers consume fixed broadband services of up to 55Mbit/s<sup>115</sup>, with customers within the top 10% most deprived areas slightly more likely to be on standard fixed broadband (34% vs. 30%).
- 4.34 All seven fixed targeted tariffs detailed above meet the threshold for decent internet access, including five tariffs which are superfast (30Mbit/s) or above. All these targeted tariffs allow customers unlimited data use each month.

#### **Tariffs should have minimal initial up-front costs and avoid early termination charges**

- 4.35 Our analysis on the amount of remaining income that households have after a basket of other essential spending suggests that the average lowest income decile household may only have £144 left each month before their spend on internet access services.<sup>116</sup> Therefore, upfront costs may have a material impact upon the ability of these households to afford an internet access service.
- 4.36 Some products are provided without connection charges, and Hyperoptic and KCOM specify that their tariffs do not include charges for new customers. Other providers do have some additional charges. For example, BT has a £9.99 post and packaging charge (and may require a security deposit from customers with low credit scores), while Virgin Media's current application process requires new customers to pay a refundable connection charge.<sup>117</sup>
- 4.37 All the targeted tariffs set out above allow pre-existing customers who are on commercially available products and within their minimum commitment periods to move onto a targeted tariff from that provider without paying an early termination charge on their pre-existing contract. Once customers are on these targeted tariffs, they all allow customers to leave the service at any point without paying an early termination charge, apart from Community Fibre's tariff.

#### **Tariffs should be available to customers for as long as they need them and continue to meet eligibility criteria**

- 4.38 We also consider that tariffs are more effective where customers can use them for as long as they meet eligibility criteria. Some providers, such as BT and Virgin Media, have specified that they will conduct annual eligibility checks. Virgin Media has also stated that it will not apply annual price increases. Other providers – KCOM and Hyperoptic – allow customers to remain on tariffs for as long as they meet the eligibility criteria, and require

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<sup>115</sup> As set out in Annex 1 (Measuring affordability), fixed broadband services of up to 55Mbit/s are taken by around 63% of customers outside the top 10% most deprived areas and 67% of customers within the top 10% of most deprived areas.

<sup>116</sup> For more details on this analysis, please refer to Annex 1 (Measuring affordability).

<sup>117</sup> Virgin Media currently requires new customers to initially apply for its M100 Fibre Broadband product and then move onto its targeted tariff once they are set up. It provides a refund on the difference and set up costs, although the set-up costs of £36 may create cash flow problems for some low income households. Virgin Media is currently refining this purchase process.

customers to notify them when their eligibility circumstances change. The tariffs offered by Community Fibre and VOXI are both currently available to applicants for a limited period, so do not provide ongoing support for customers who continue to face affordability problems.

## 5. Conclusions and next steps

- 5.1 Since December 2020, we have continued to conduct research and monitor other affordability indicators. Our evidence shows that around 2 million households have had an affordability issue with their broadband or mobile in the past month, or have neither of these services partly due to cost.
- 5.2 Better customer engagement could address affordability problems for some<sup>118</sup>, particularly those who have affordability problems while paying higher prices and those on relatively higher incomes. But for customers on the lowest incomes – including 3.3 million households in the lowest income decile – engagement alone may not be sufficient to make fixed services affordable. Therefore, the widespread availability of targeted tariffs for financially vulnerable households can provide an important safety net.

### **We have seen some progress in the number of targeted tariffs being offered, with six providers offering at least one targeted tariff priced at £10, £15 or £20 a month**

- 5.3 In our December 2020 report, we strongly encouraged providers to offer targeted discounted tariffs where they did not already do so, and to adopt best design practice where they did offer such tariffs. Since then, we have seen some progress in the targeted tariffs being offered: six providers have introduced new or updated targeted tariff products, which are available on a permanent or temporary basis for broadband and mobile services.
- 5.4 We have considered the impact for low income households of common current targeted tariff prices (£10, £15 and £20 per month). Our analysis suggests that targeted tariffs priced at these levels can help to address affordability problems for those in the lowest decile. For a customer in the lowest income decile<sup>119</sup>, switching to a £10 a month tariff would bring their spend almost in line with the median household (1.2%), while a £15 monthly tariff would bring their spend below that of those in the second decile. As shown in table 15, targeted tariffs priced between £10 and £20 would save a lowest decile household £84 to £204 per year if they are currently spending the median monthly amount<sup>120</sup> on a product with a speed of under 55Mbit/s.

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<sup>118</sup> We note that our consumer research has found that even those towards the top of the income distribution report affordability problems.

<sup>119</sup> Around 3.3m households are most at risk of affordability problems due to the substantial increase in proportion of income spend that occurs within the lowest decile.

<sup>120</sup> By those resident in the top 10% most deprived areas.

Table 15: Annual targeted tariff benefit to lowest decile households

	Targeted Tariff	Targeted Tariff	Targeted Tariff
	(£20 per month)	(£15 per month)	(£10 per month)
Median Price < 55Mbit/s	£27	£27	£27
Customer saving per month	£7	£12	£17
Customer saving per year	£84	£144	£204
% of monthly disposable income (AHC)	3.1%	2.3%	1.6%

Source: Provider data (2019) and ONS income data (2020).

5.5 As set out above, there are households who have much less disposable income than the average for the lowest income decile. Therefore, it is possible that even tariffs priced between £10 - £20 may have limited impact on the ability of some households on the very lowest incomes to afford a fixed broadband service.

5.6 To help ensure that targeted tariffs are effective, we encourage providers to consider the following design features, in addition to headline monthly prices. Targeted tariffs should:

- offer a reasonable internet connection speed<sup>121</sup> without a monthly cap on data use;
- be proactively promoted to raise awareness among people who could benefit from them;<sup>122</sup>
- have minimal initial up-front costs and avoid early termination charges; and
- be available to customers for as long as they meet the relevant eligibility criteria.

**There remains a gap in support for households most at risk of affordability problems. We strongly encourage fixed broadband and mobile providers to offer effective targeted tariffs**

5.7 Based on the scale of the affordability problems identified in our analysis, we think that targeted tariffs have an important role to play, but there are gaps in current provision.

5.8 Current targeted tariffs – offered by **BT, Community Fibre, Hyperoptic, KCOM, Virgin Media, and VOXI** – may help to address affordability issues for many eligible households. All of these tariffs are provided without monthly data caps, and these providers allow pre-existing customers who are in-contract to move onto their targeted tariffs without paying an early termination charge.

5.9 Despite this progress, we consider that these tariffs could deliver greater benefit to the lowest income households if providers ensure they meet all the features above. For example, our evidence on take-up – with 1% of households in receipt of zero earnings benefits on existing targeted tariffs – suggests that all providers need to improve how they

<sup>121</sup> Our evidence on broadband use, for example – we detail in Annex 1 (Measuring affordability) that two thirds of broadband households in the 10% most deprived postcodes have a speed of up to 55 Mbit/s.

<sup>122</sup> Promotion of tariffs can be done through a number of ways including, but not limited to: promotion to customers who providers know are financially vulnerable collaboration with third party organisations, and clear and accessible information on providers' websites.

promote tariffs to customers who may benefit from them. Some of the targeted tariffs are only temporarily available and some currently include up front charges.

- 5.10 In terms of overall provision, while we welcome the progress that some providers have made since December 2020, many providers still do not offer targeted tariffs at all. We are therefore concerned that there remains a gap in provision for households on the lowest incomes which may cause particular problems for some (such as customers who are in-contract with a provider that does not currently offer a targeted tariff, or households that only access the internet through mobile services).
- 5.11 We encourage providers that do not currently offer a targeted tariff – including **EE, Plusnet, Shell, Sky, TalkTalk and Vodafone in the broadband market and all major mobile providers** – to consider ensuring their customers can access a targeted tariff that meets the design features above. We consider that this would help to increase take-up of targeted tariffs and therefore reduce affordability issues associated with internet access.
- 5.12 Our analysis suggests that deeper discounts relative to commercial prices are likely to offer the greatest benefit for customers on the lowest incomes, compared to less discounted products with wider eligibility. We therefore encourage providers to consider how they can offer targeted tariffs at low prices – for example by offering tariffs to a narrower pool of customers, or at the lowest reasonable speed.<sup>123</sup> We expect the industry to explore practical solutions to overcoming any barriers that are preventing further targeted tariffs being offered.

**We will continue to monitor the extent of affordability issues and will consider whether further action may be necessary to protect consumers**

- 5.13 We will continue to engage with industry to encourage further improvements in the provision of targeted tariffs. We will continue to monitor affordability trends through further waves of research, as well as monitoring the provision, promotion, and take-up of targeted tariffs.
- 5.14 If a voluntary approach to improving targeted tariffs has not sufficiently addressed the affordability issues that we have identified, we consider that there would be a strong case for exploring whether regulated social tariffs<sup>124</sup> would be necessary to address remaining gaps in provision, alongside other potential options.

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<sup>123</sup> As set out above, where providers could offer deeper discounts by narrowing eligibility we consider that this could deliver greater benefits for those on the lowest incomes. Our analysis suggests that those in the lowest income decile aligns broadly with households on zero earnings benefits, so this could act as a proxy for households in the lowest income decile.

<sup>124</sup> As set out in the background chapter of this report, Ofcom does not have the power to introduce regulated social tariffs without a direction from the Secretary of State to Ofcom to review the affordability of relevant services and subsequent approval by the Secretary of State of Ofcom's recommendations.

## A1. Measuring affordability

A1.1 In this annex we provide additional detail on our analysis of:

- The proportion of fixed broadband spend to income: as set out in the section ‘Proportion of fixed broadband spend to income’ of the main report, this analysis was used to estimate the number of households that are likely to have affordability issues with fixed broadband.
- Actual amounts of spend for fixed broadband: as set out in the section ‘Actual amounts paid for fixed broadband’ of the main report, this analysis was used to establish the level of prices customers are actually paying for fixed broadband.

### Proportion of fixed broadband spend to income

A1.2 Measuring the ratio of spend on fixed broadband to income for different households can indicate the potential for affordability issues and has been used in other sectors.<sup>125</sup> Where the percentage of disposable income spent on fixed broadband is higher, there is a greater risk that households will experience affordability issues.

A1.3 We have considered a number of different measures of income for this analysis, which we detail below:

- Proportion of disposable income spend on fixed broadband<sup>126</sup>
- Proportion of disposable income spend on fixed broadband after housing costs (AHC)
- Proportion of disposable income spend on fixed broadband net of other essential expenditure

### Proportion of disposable income spend on fixed broadband

A1.4 We first compare spend on fixed broadband with income for each Office for National Statistics (“ONS”) equivalised disposable income decile in the UK.

A1.5 We have used income data collected by the ONS, which provides the distribution of UK household income by decile. These figures include all income plus direct benefits minus direct taxation, providing a distribution of household income in the UK, broken down into 10 equal decile groups of individuals.

A1.6 The table below shows that the 10% highest earning households have an average annual disposable income of over £100,000, while the 10% lowest earning households have on average below £11,000 annual disposable income. Between the second and ninth deciles, annual disposable income varies from around £20k to around £65k.

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<sup>125</sup> For example, in the water sector. See Ofwat, December 2015. [Affordability and debt 2014-15](#).

<sup>126</sup> All income figures presented here are non-equivalised and therefore real income levels, however in the process of ranking individuals into deciles, equivalised income is used. Equivalisation is a method of adjusting income to account for differences in household composition. ONS data uses the OECD-modified scale which is outlined [here](#).

## Affordability of communications services: Summary of findings

A1.7 There are significant differences in earnings at the top and bottom of the distribution, meaning that the proportion of each decile's household earnings spent on fixed broadband will vary substantially.

**Table A1: Proportion of disposable income spent on fixed broadband, by decile**

	Lowest	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Highest	Median <sup>127</sup>
<b>Annual</b>	£10,884	£20,849	£25,367	£30,460	£35,641	£40,907	£47,416	£56,230	£66,683	£126,778	£38,274
<b>Monthly</b>	£907	£1,737	£2,114	£2,538	£2,970	£3,409	£3,951	£4,686	£5,557	£10,565	£3,190
<b>Spend as % of disposable income</b>	3.0%	1.7%	1.4%	1.2%	1.0%	0.9%	0.8%	0.6%	0.5%	0.3%	0.9%

Source: [ONS](#) income data (2020) and provider data (2019).

A1.8 For spend on broadband, we use 2019 provider data<sup>128</sup> on spend on products with speeds of up to 55Mbit/s.<sup>129</sup> To assess the level of prices paid by lower income households for those products we have filtered the data to look at spend for customers within the top 10% most deprived areas ranked by indicators of multiple deprivation (IMD). We assume that the lowest decile spends £27, which was the median spend within the 10% most deprived areas, while assuming all other deciles spend £29.99, which was the median spend outside these areas. We can then calculate the proportion of this income which is spent on fixed broadband by decile.

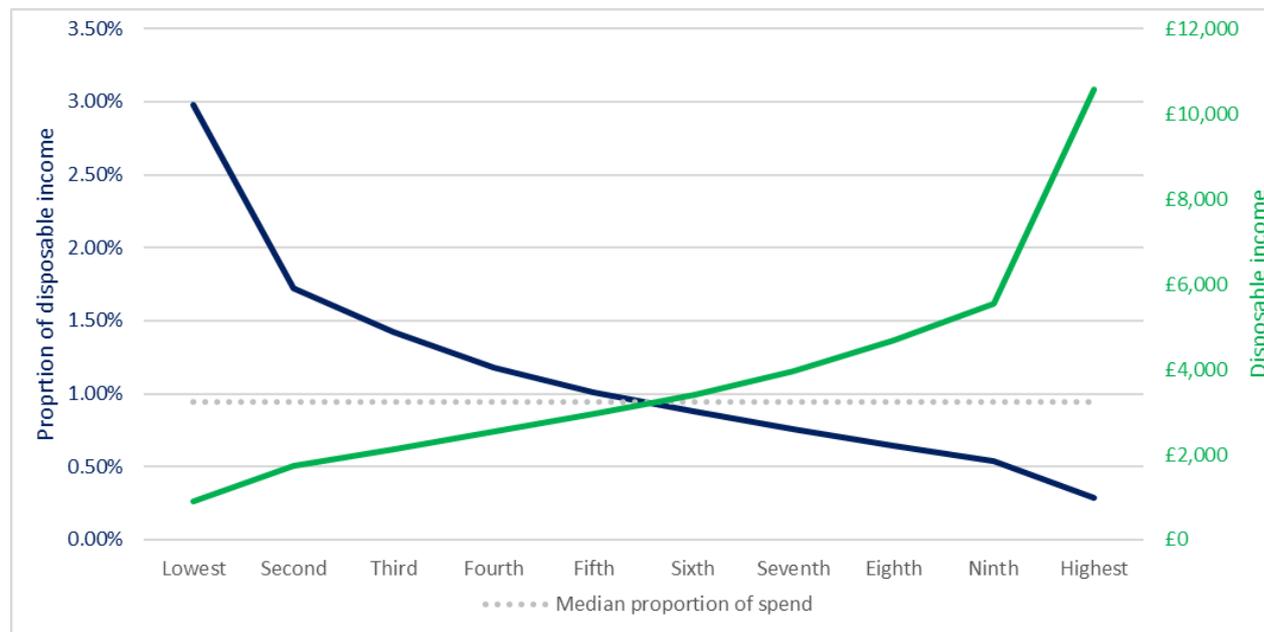
A1.9 The below graph shows the proportion of disposable income spend on fixed broadband by decile. The average household in the lowest decile would spend around 3% of their disposable income on a fixed broadband service, which is substantially more than the UK median of around 1%. It is also significantly higher than even those in the second lowest decile who would spend around 1.7%.

<sup>127</sup> When using ONS data, the median is approximated using the average of the fifth and sixth decile. This is preferable to using mean income and expenditure as a comparison as it eliminates skewing that is caused by income and expenditure at the top of the distribution.

<sup>128</sup> For more details on the dataset used, please refer to the below section, 'Actual amounts paid for fixed broadband'.

<sup>129</sup> Spend only on these products is used as we are considering whether entry-level broadband services offering a decent connection are affordable for households.

Figure A2: Proportion of disposable income spend on fixed broadband, by decile



Source: [ONS](#) income data (2020) and provider data (2019).

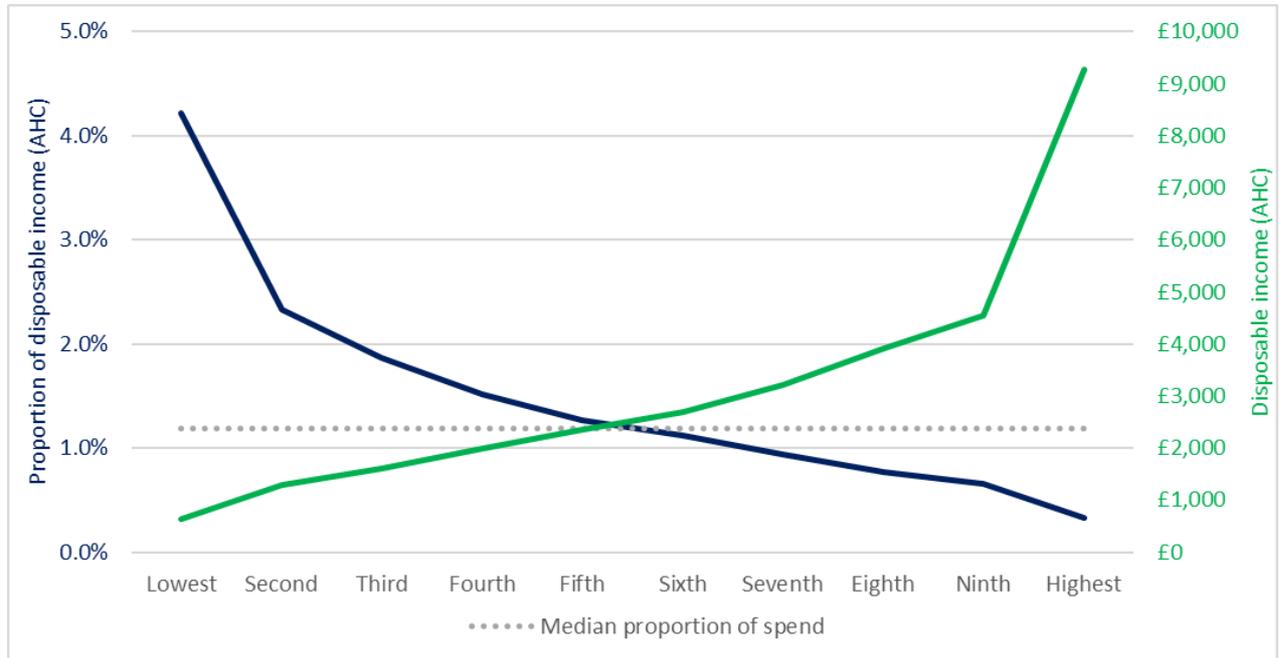
### Proportion of non-equivalised disposable income spend on fixed broadband after housing costs (AHC)

- A1.10 As we seek to estimate how many households are suffering undue hardship from purchasing fixed broadband, we also consider how the deduction of certain other essential expenditure impacts their situation, for example housing costs. Essential expenditure particularly affects low income households, as it generally represents a higher proportion of their household income.
- A1.11 Using [ONS](#) financial year ending 2020 figures on expenditure by decile group, we assess non-equivalised<sup>130</sup> disposable income after the deduction of housing costs (AHC).<sup>131</sup> As shown below, the median proportion of spend on fixed broadband among all deciles is 1.2%, and as in the first method used there is a trend of the spend to income ratio increasing the lower the income decile, with the lowest decile spending 4.2% of the £641 of disposable income they have remaining after housing costs.

<sup>130</sup> This is income un-adjusted for household composition, which is necessary when deducting spend, as spend figures are given in non-equivalised terms.

<sup>131</sup> Housing benefit and council tax expenditure is removed, as they are accounted as a deduction from income to generate disposable income. Includes spend on rent, mortgage, purchases, and alterations of dwellings.

Figure A3: Proportion of disposable income spend on fixed broadband, by decile, after housing costs



Source: [ONS](#) income data (2020), [ONS](#) expenditure data (2020) and provider data (2019).

Table A4: Proportion of disposable income spent on fixed broadband, by decile, after housing costs

Spend/Income	Lowest	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Highest	Median
Disposable income	£907	£1,737	£2,114	£2,538	£2,970	£3,409	£3,951	£4,686	£5,557	£10,565	£3,190
Housing	(£267)	(£448)	(£504)	(£557)	(£610)	(£721)	(£743)	(£776)	(£1,006)	(£1,293)	(£665)
Disposable income (AHC)	£641	£1,290	£1,610	£1,982	£2,360	£2,688	£3,208	£3,910	£4,551	£9,272	£2,524
Average Spend	£27	£30	£30	£30	£30	£30	£30	£30	£30	£30	£30
Spend as % of disposable income (AHC)	4.2%	2.3%	1.9%	1.5%	1.3%	1.1%	0.9%	0.8%	0.7%	0.3%	1.2%

Source: [ONS](#) income data, [ONS](#) expenditure data (2020) and provider data (2019).

### Proportion of non-equivalised disposable income spend on fixed broadband net of other essential expenditure

- A1.12 Alongside essential spend on housing, there are other essential spend items that a household needs to consume to avoid experiencing undue hardship, such as food and utilities. This has a further impact on those households with the lowest income, due to the nature of many essential spend items being insensitive to increases in income.
- A1.13 To calculate the effect of deducting this expenditure from disposable income, we have again used [ONS](#) financial year ending 2020 figures on expenditure by decile group.

Table A5: Proportion of monthly remaining income spent on fixed broadband, by decile, after deductions for other essential spend

Spend/Income	Lowest	Second	Third	Fourth	Fifth	Sixth	Seventh	Eighth	Ninth	Highest	Median
<b>Disposable income</b>	£907	£1,737	£2,114	£2,538	£2,970	£3,409	£3,951	£4,686	£5,557	£10,565	£3,844
<b>Housing</b> <sup>132</sup>	(£267)	(£448)	(£504)	(£557)	(£610)	(£721)	(£743)	(£776)	(£1,006)	(£1,293)	(£703)
<b>Energy</b> <sup>133</sup>	(£98)	(£97)	(£101)	(£106)	(£101)	(£103)	(£106)	(£107)	(£114)	(£126)	(£106)
<b>Water</b> <sup>134</sup>	(£37)	(£43)	(£37)	(£39)	(£39)	(£43)	(£51)	(£47)	(£49)	(£65)	(£45)
<b>Food and drink</b> <sup>135</sup>	(£195)	(£224)	(£239)	(£262)	(£271)	(£283)	(£314)	(£306)	(£322)	(£345)	(£276)
<b>Transport</b> <sup>136</sup>	(£113)	(£136)	(£195)	(£213)	(£243)	(£313)	(£328)	(£393)	(£454)	(£500)	(£289)
<b>Clothing + Footwear</b> <sup>137</sup>	(£54)	(£62)	(£59)	(£68)	(£96)	(£112)	(£112)	(£136)	(£135)	(£179)	(£101)
<b>Total remaining</b>	£144	£728	£980	£1,294	£1,610	£1,833	£2,298	£2,920	£3,478	£8,057	£2,323
<b>Spend as % of remaining income</b>	18.7%	4.1%	3.1%	2.3%	1.9%	1.6%	1.3%	1.0%	0.9%	0.4%	1.3%

Source: [ONS](#) income data, [ONS](#) expenditure data (2020) and provider data (2019).

<sup>132</sup> Inclusive of rent, mortgage, purchases, and alterations of dwellings.

<sup>133</sup> Inclusive of spend on gas, electricity, and other fuels.

<sup>134</sup> Inclusive of spend on water services to the premise and miscellaneous services relating to dwelling.

<sup>135</sup> Inclusive of all spend on food and drink, apart from alcoholic drinks which are excluded.

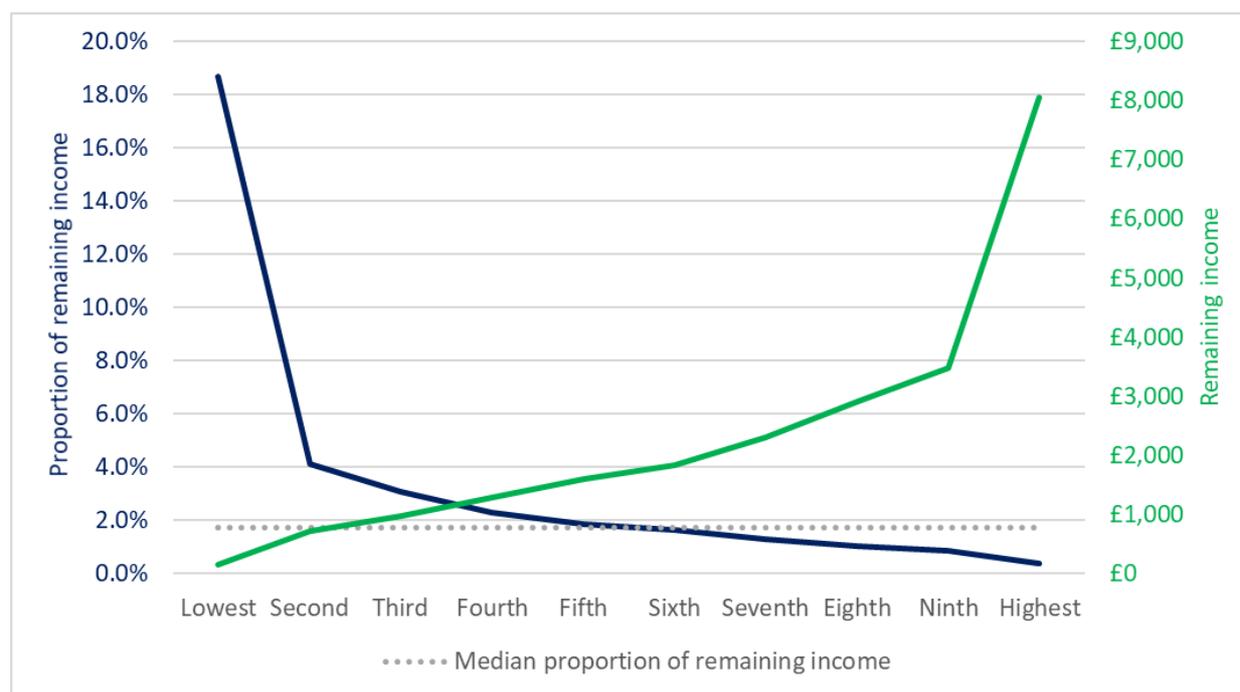
<sup>136</sup> Inclusive of all transport spend.

<sup>137</sup> Inclusive of all clothing and footwear spend.

A1.14 As displayed in the above table, utilities and food and drink spend are relatively insensitive to changes in household disposable income<sup>138</sup>, meaning that the deduction of these items from the lowest deciles' earnings will worsen their comparative position against higher deciles.

A1.15 The average lowest decile household would spend around 19% of their remaining income on a fixed broadband tariff, which is ten times more than the average household would spend (1.7%). It is also over four times more than the second decile would spend (4.1%) as a proportion of remaining income.

**Figure A6: Proportion of remaining disposable income spend on fixed broadband, by decile**



Source: [ONS](#) income data, [ONS](#) expenditure data (2020) and provider data (2019).

A1.16 We note that in all outlined measures, there appears to be a step-change for the lowest income decile with these households spending a significantly higher proportion of disposable income on fixed broadband. The lowest decile corresponds to a grouping of around 3.3m households. We also find that the step-change for the lowest decile increases when more essential spend items are deducted from decile level disposable incomes.

## Actual amounts paid for fixed broadband

A1.17 We have analysed provider data to establish the level of prices customers are actually paying for broadband.<sup>139</sup> This included analysis of tariffs available to new customers as well as customers who have re-contracted or are out-of-contract with their providers.

<sup>138</sup> Especially in utilities, where lowest decile spend is around 80% of mean spend on energy and water bills.

<sup>139</sup> We use the same sources that underpinned Ofcom's July 2020 report: [Helping consumers get better deals: Review of pricing practices in fixed broadband](#).

- A1.18 This data was collected from each of the largest four fixed broadband providers as well as each of their sub-brands, namely: BT, EE, Plusnet, Virgin Media, Sky, and TalkTalk. Collectively these providers accounted for around 90% of fixed broadband customers in the UK in 2019.<sup>140</sup>
- A1.19 The data consists of around 21.5 million individual customer records taken in September 2019. For each customer, the data includes details of the product purchased and the amounts that the customer paid for that product; including the monthly payment, the connection fee and any other payments charged. The data also indicates whether any given customer resides in one of the top 10% most deprived areas<sup>141</sup>, which we use a proxy to identify lower income groups.

## Methodology

- A1.20 We have exclusively focused our analysis on customers that take dual-play products. Triple-play and quad play products will have other services, such as pay TV or mobile, bundled in with fixed broadband, under the same monthly payment. Dual-play payments typically include a line rental charge. However, as this is necessary to obtain fixed broadband in most cases, we consider that a dual-play payment is representative of the price of a fixed broadband service and constitutes an appropriate benchmark to measure any targeted tariffs against.
- A1.21 In addition, to assess the level of prices paid by lower income households we have filtered the data to look at dual-play prices for customers within the top 10% most deprived areas and compared those with prices paid by customers outside top 10% most deprived areas.
- A1.22 We also note that, according to the data, some dual-play customers are paying negative or very low monthly subscription prices. Some of these low prices may reflect ad-hoc deals with providers and some<sup>142</sup> are likely to reflect errors in recording the data. We note however that these instances only represent a minority of all dual-play customers<sup>143</sup> and as such have a negligible impact on the overall results of this analysis. Based on this, we have, for simplicity, dropped from the dataset any customers paying less than the cheapest dual-play tariff currently available on the market (i.e. £17).<sup>144</sup>
- A1.23 This leaves us with a dataset of around 10 million customers of which around 800k customers live in the top 10% most deprived areas. We consider this is a reasonable sample size to draw robust inferences from.

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<sup>140</sup> See Ofcom's [Communications Market Report 2020, Telecoms: Fixed](#).

<sup>141</sup> To create this indicator postcodes were ranked – within each Nation – according to their index of multiple deprivation. Postcodes within the first decile of such rankings would be within the top 10% most deprived areas.

<sup>142</sup> This is especially the case for prices that are negative and/or close to zero prices.

<sup>143</sup> For example, of all dual-play customers paying a positive monthly subscription price, only around 2% pay less than the cheapest dual-play tariff currently available on the market (i.e. £17).

<sup>144</sup> As noted, these represent a minority of all dual-play customers (i.e. around 2%). As such, dropping those from the analysis would not affect any of our conclusions based on this analysis.

A1.24 For the purpose of assessing the effectiveness of targeted tariffs, we assume no out of bundle usage and therefore exclusively focus on monthly subscription prices, excluding any upfront and/or additional fees.

## Key findings

A1.25 Tables A7 and A8 below report the average fixed broadband price by speed across income groups and the percentile distribution of monthly fixed broadband prices across income groups, respectively.

**Table A7: Average monthly fixed broadband price per speed across income groups**

Speed band	Average monthly broadband price across all customers	Average monthly broadband price across customers outside top 10% most deprived areas	Average monthly broadband price across customers within top 10% most deprived areas	Minimum tariffs currently available on the market
<30Mbit/s	£30	£30	£26	£17
30-55Mbit/s	£35	£35	£31	£22
56-10Mbit/s	£45	£45	£39	£22
101-200Mbit/s	£41	£41	£38	-
>200Mbit/s	£51	£51	£48	-

Source: Ofcom analysis of provider data.

**Table A8: Percentile distribution of monthly fixed broadband prices across income groups**

Percentile	All customers	Customers outside top 10% most deprived areas	Customers within top 10% most deprived areas
1%	£18	£18	£18
5%	£20	£20	£19
10%	£21	£22	£20
25%	£27	£27	£24
50%	£32	£33	£30
75%	£46	£48	£38
90%	£59	£59	£52
95%	£59	£59	£59
99%	£64	£64	£64
Average	£37	£37	£32

Source: Ofcom analysis of provider data.

A1.26 Tables A7 and A8 show that households in the most deprived areas spend less on average on fixed broadband than households in the rest of the UK. However, table A7 indicates that the amounts paid are on average significantly above the cheapest tariffs currently available commercially, and this applies for all speed bands (for example, for 30-55Mbit/s products customers are on average paying £31-£35 compared to a £22 cheapest available tariff). Accordingly, there appears scope for all consumers on average, including those with lower incomes, to obtain a better deal by shopping around.<sup>145</sup>

A1.27 We have also considered the fixed broadband speeds taken by customers using indicators of likely low incomes based on postcode level analysis, as shown in table A9 below.

**Table A9: Distribution of speed-bands across income groups**

Speed band	Percentage of customers outside top 10% most deprived areas	Percentage of customers within top 10% most deprived areas
<30Mbit/s	30%	34%
30-55Mbit/s	33%	33%
56-100Mbit/s	31%	25%
101-200Mbit/s	4%	7%
>200Mbit/s	2%	2%

Source: Ofcom analysis of provider data.

A1.28 Table A9 above indicates that the fixed broadband speeds being taken are broadly similar across income groups<sup>146</sup>, with customers within the top 10% most deprived areas slightly more likely to be on standard fixed broadband (34% vs. 30%) and slightly less likely to be taking speeds above 55Mbit/s (34% vs. 36%). This suggests that the proportion of people requiring a higher speed product may not strongly depend on income level.<sup>147</sup>

<sup>145</sup> As noted, we recognise that customer spend may, to some extent, reflect availability of tariffs in different areas of the country. However, we consider this is unlikely to materially affect the results of this analysis.

<sup>146</sup> As noted, these results may, to some extent, reflect availability of speed-bands across different areas of the country.

<sup>147</sup> Relatedly, as set out in section 'Targeted tariffs: other design features' of this report, we note that take-up of social tariffs has been relatively low so far. We are currently considering the possibility of exploring the extent to which behavioural factors may play a role in determining these outcomes.

## A2. Consumer research technical annex

### Background

- A2.1 We have been tracking consumers' attitudes and behaviours during the pandemic through Ofcom's *Covid-19 Affordability Tracker*. Ofcom commissioned monthly telephone interviews among c.1,100 UK households from June 2020. The research focuses on affordability issues that consumers in the communications market may be facing and asks about any actions they have taken to help afford communications services in the month prior to interview.
- A2.2 The research findings in this report are taken from interviews conducted between November 2020 and April 2021. All data shown in the report is based on the average of combined data between November and April 2021, unless stated otherwise. Full data tables are available on the [Ofcom website](#).

### Questionnaire changes

- A2.3 The questionnaire has remained largely unchanged from that reported in December 2020. However, from October 2020 we reduced the frequency of a small number of questions, as shown below (x indicates the month questions were included). Questions around importance and spend were removed from April 2021. Analysis/tables for these questions exclude months where these questions were not asked.

#### Questions with reduced frequency from November

Question	Nov	Dec	Jan	Feb	Mar	April
How important is this communication service to your household at the moment?	X		X		X	
On average how much per month does your household spend on [service]?	X		X		X	
On average, how much per month do you personally spend on your main mobile phone package?	X		X		X	
How confident or not are you that you and your household will be able to pay for your communication services without making any (further) changes in the next three months?	X		X		X	X
Thinking of your total household monthly income and outgoings, at the moment how does your household financial situation compare with a typical month before the social distancing measures started i.e. before March 2020?	X		X		X	X

## Caveats to analysis

- A2.4 **Income analysis:** Analysis by income (e.g. the lowest household income category), is indicative only as just over a third (35%) of respondents did not answer this question. Non-response is skewed towards lower socio-economic groups therefore it is possible that affordability issues among the lowest income category are understated.
- A2.5 **Age, ethnicity and working status:** These data points are based on the decision maker and do not reflect the make-up of the household. We do not collect these data for all members of the household.
- A2.6 **Comparison with DWP data:** The proportion of the sample allocated to individual benefits categories<sup>148</sup> in the *Covid-19 Affordability Tracker* (November to April waves) is lower than expected when compared to Ofcom analysis of data reported by the Department for Work and Pensions (“DWP”).
- A2.7 However, indications suggest these respondents *are* reflected in the overall sample. For example, socio-economic group E is well-represented in the data among both older (65+) and younger (under 65) age groups; the non-response rate to this question was low (4%); and 7% of respondents stated they were in receipt of an ‘other’ benefit not listed – potentially a means-tested benefit. It is also possible that some respondents in receipt of benefits may have been reluctant to share this information with interviewers, given the sensitivities.

## Statistical significance testing

- A2.8 When comparing results between demographic groups, or between a group and the total population, we conduct two-tailed statistical tests and only report significant differences at the 95% confidence level.<sup>149</sup> When comparing results between one wave of research to another, or between the June to October data and the November to April data, we conduct two-tailed statistical tests and only report significant differences at the 99% confidence level. Wave on wave comparisons are tested at the 99% level to account for any slight differences in methodology across waves.

## Overview of methodology

- A2.9 **Methodology:** CATIbus (telephone) survey run by Ipsos MORI.
- A2.10 **Core objective:** To provide Ofcom with continued understanding of consumer affordability issues in the UK communications markets (covering mobile, landline, fixed broadband, pay TV and on-demand TV services).

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<sup>148</sup> Respondents are asked the following question: Could you please tell us whether you or anyone in your household currently receives any of the following benefits? Codes include ‘none of these’ as an option.

<sup>149</sup> The confidence interval represents a range in which, if we repeated the survey 100 times, we would expect 95 of 100 samples' confidence intervals to contain a value that is equal to the actual number of households experiencing this issue.

- A2.11 **Sample size:** 7191 (rolled across 6 waves).
- A2.12 **Fieldwork period:** The fieldwork referenced in this report was carried out between November (6th-15th) 2020 to April (9th-14th) 2021. Fieldwork generally takes place in the first week of each month and therefore experiences largely reflect those of the previous month e.g. November fieldwork will largely reflect experiences in October.
- A2.13 **Sample definition:** UK adults aged 18+, identifying those who are either the sole or joint decision-maker for communications services in their household and/or those who personally use a mobile phone, for the main survey. Quotas are set on age, gender, working status and geographical regions. This sample also included a Northern Ireland boost.
- A2.14 The respondent base by service includes those who currently have the service in their household and those who said that they cancelled that service in the month prior to interview.
- A2.15 The overall sample is based on and weighted to be representative of all UK adults. While the profile of the UK adult population is distinct from the profile of UK households, the questions were answered by a single person in the household and largely relate to what they, or anyone in their household has done or experienced. Therefore, we did not consider it necessary to reweight the data to be representative of UK households as we expect the decision maker sample to be representative of UK households.
- A2.16 **Sampling process:** Respondents were identified using random digit dialing. Mobile numbers have a selection probability proportional to mobile network market share, while landline numbers have a selection probability proportional to their population distribution across government office regions. On average, the split between mobile and landline interviews from November to April was 53% mobile and 47% landline however, the exact mobile to landline split varied each month.
- A2.17 **Weighting:** The overall data have been post-weighted to ensure they are representative of the UK adult population. This sample was weighted to be representative of UK profile (including non-telephone owning households) for the key demographic variables of; gender by age, region, social grade and working status. Full details of the sampled and weighted profile (i.e. November to April) of the sole or joint decision-maker for communications services in their household and/or those who personally use a mobile phone are included below.

## Full sample and weighting

	Interviews achieved	Weighted
<b>Total</b> <sup>150</sup>	7191	7191
<b>Gender</b>		
<b>Male</b>	3338 (46%)	3487 (48%)
<b>Female</b>	3819 (53%)	3669 (51%)
<b>Age groups</b>		
<b>18-24</b>	677 (9%)	765 (11%)
<b>25-34</b>	968 (13%)	1240 (17%)
<b>35-44</b>	948 (13%)	1145 (16%)
<b>45-54</b>	1239 (17%)	1236 (17%)
<b>55-64</b>	1307 (18%)	1113 (15%)
<b>65-74</b>	1206 (17%)	1001 (14%)
<b>75+</b>	830 (12%)	675 (9%)
<b>Regions</b>		
<b>North East</b>	239 (3%)	290 (4%)
<b>Yorkshire and Humberside</b>	514 (7%)	581 (8%)
<b>East Midlands</b>	432 (6%)	512 (7%)
<b>Eastern</b>	628 (9%)	677 (9%)
<b>Greater London</b>	862 (12%)	942 (13%)
<b>South East</b>	867 (12%)	983 (14%)
<b>South West</b>	550 (8%)	623 (9%)
<b>West Midlands</b>	574 (8%)	632 (9%)
<b>North West</b>	720 (10%)	788 (11%)
<b>Wales</b>	424 (6%)	342 (5%)
<b>Scotland</b>	753 (10%)	611 (8%)
<b>Northern Ireland</b>	628 (9%)	210 (3%)
<b>Socio-economic group</b>		

<sup>150</sup> When totals in these categories do not sum to 7191/100%, this is because some respondents chose not to answer this question, or a non-standard answer was provided. We omitted this category from this section as less than 100 people gave this answer. Data based on latest Office for National Statistics (“ONS”) population estimates.

<b>A</b>	390 (5%)	436 (6%)
<b>B</b>	1280 (18%)	1452 (20%)
<b>C1</b>	2515 (35%)	1835 (26%)
<b>C2</b>	1218 (17%)	1495 (21%)
<b>D</b>	643 (9%)	1027 (14%)
<b>E</b>	756 (11%)	661 (9%)
<b>Other</b>	389 (5%)	285 (4%)
<b>Working status</b>		
<b>Any working</b>	3966 (55%)	4265 (59%)
<b>Any not working</b>	3213 (45%)	2912 (41%)

## Population estimates quoted in the report

- A2.18 In this report we have included population estimates based on percentages from the *Covid-19 Affordability Tracker*, the *Technology Tracker* and Office for National Statistics (“ONS”) estimates on the number of households in the UK. These population estimates from the *Covid-19 Affordability Tracker* are; the number of households that experienced an affordability issue with any communications services ‘in the last month’ (18% of households on average, 15% for April – table A10); the number of households that experienced an affordability issue with fixed broadband ‘in the last month’ (5% of fixed broadband households on average, 3% of households in April – table A11); the number of households that had an affordability issue with their smartphone mobile service in the last month (6% of smartphone owning households on average, 4% of households in April – table A12) and the number of households that had a fixed broadband affordability issue and/or a smartphone mobile affordability issue in the last month (8% of households on average, 7% of households in April – table A13). The population estimates from the *Technology Tracker* are; the number of households that are mobile internet only (5% of households - table A14) and the number of households do not have and are unlikely to gain access to the internet in the next 12 months at least partly due to cost (0.7% of households – table A15).
- A2.19 We also include a population estimate of the number of households that had an affordability issue with broadband and/or smartphone services in the last month, or do not have internet at home with cost a factor. This is created from combining the estimated number of households that had a fixed broadband affordability issue and/or a smartphone mobile affordability issue in the last month from the *Covid-19 Affordability Tracker* with the lower range estimate of the number of households that do not have internet at home with cost a factor from the *Technology Tracker* (table A16).
- A2.20 The population estimates based on the *Covid-19 Affordability Tracker* data quoted in the report are based on the April wave (n=1679) as it is not possible to calculate a robust

population estimate for the combined total number of households that had an affordability issue over the duration of the survey (i.e. November to April). Our survey data suggests some households have continuing affordability issues and others have only experienced these for a number of months over the full survey period. Therefore, adding monthly totals would include some double counting and the survey data is unable to reliably establish to what extent this is the case.

- A2.21 The questions asked in the *Technology Tracker* survey do not refer to a specific period (e.g. the last month), therefore there isn't a risk of double-counting from combining answers collected over this tracker's entire research period.
- A2.22 The overall sample for both surveys is based on and weighted to be representative of all UK adults. While the profile of the UK adult population is distinct from the profile of UK households, the questions were answered by a single person in the household and relate to household behaviour. Therefore, we did not consider it necessary to reweight the data to be representative of UK households as we expect the decision maker sample to be representative of UK households.
- A2.23 All generated household estimates are reported to the nearest 100,000 and use the latest ONS population estimates. This is the standard rounding that Ofcom use in producing population estimates from survey data with a sample size of around 1100. Larger samples sizes are required in order to provide more precision.
- A2.24 The approach taken to calculate the population estimates are shown in the tables below. Data in **bold** and **red** illustrate the %s used in the population calculation.

## Covid-19 Affordability Tracker population estimates

Table A10: Any communications affordability issue, in the last month

	<b>% quoted in report (rolled waves 6-11)</b>	<b>April data (used in population estimate)</b>
	<b>UK Households</b>	
	<b>Average/total<sup>151</sup></b>	<b>April</b>
Weighted Base	7191	1679
Percentage of base that experienced any affordability issue	18% (n=1288)	<b>15%</b> (n=252)

<sup>151</sup> Rounded to represent the % quoted in the main report.

	April %	ONS – number of households in UK <sup>152</sup>	Estimated number of households (rounded to nearest 100,000)
% and population estimate of UK households experiencing any affordability issue (in the last month)	<b>15%</b>	27,792,000	<b>4,200,000</b>
Upper Bound	16.7%		4,600,000
Lower Bound	13.3%		3,700,000

Table A11: Any fixed broadband affordability issue, in the last month

	% quoted in report (rolled waves 6-11)		April data (used in population estimates)
	Fixed Broadband Households		UK Households
	November to April	April	April
Weighted Base	5989	1403	1679
Percentage of base that experienced a broadband affordability issue	5% (n = 312)	3% (n = 49)	<b>3%</b> (n = 49)

	April %	ONS – number of households in UK	Estimated number of households (rounded to nearest 100,000)
% and population estimate of UK households experiencing a broadband affordability issue (in the last month)	<b>3%</b>	27,792,000	<b>800,000</b>
Upper Bound	3.7%		1,000,000
Lower Bound	2.1%		600,000

<sup>152</sup><https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2020>.

**Table A12: Any mobile affordability issue in the last month among those that own a smartphone<sup>153</sup>**

	% quoted in report (rolled waves 6-11)		April data (used in population estimate)	
	Smartphone owning households		UK Households	
	November to April	April	April	
Weighted Base	6114	1413	1679	
Percentage of base that experienced a mobile affordability issue	6% (n = 364)	5% (n = 71)	<b>4%</b> (n = 71)	

	April	ONS – number of households in UK	Estimated number of households (rounded to nearest 100,000)
% of base that experienced a mobile affordability issue	<b>4%</b>	27,792,000	<b>1,200,000</b>
Upper Bound	5.2%		1,400,000
Lower Bound	3.3%		900,000

**Table A13: Any fixed broadband and/or mobile affordability issue (in those that own a smartphone), in the last month<sup>154</sup>**

	% quoted in report (rolled waves 6-11)		April data (used in population estimate)	
	UK Households			
	November to April		April	
Weighted Base	7191		1679	
Percentage of base that experienced any affordability issue with their fixed	8% (n = 603)		<b>7%</b> (n = 112)	

<sup>153</sup> **Note:** this estimate assumes mobile affordability issues among smartphone owners at least in part relates to affordability of mobile internet services.

<sup>154</sup> **Note:** this estimate assumes mobile affordability issues among smartphone owners at least in part relates to affordability of mobile internet services.

broadband or mobile (in those that own a smartphone)		
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	April %	ONS – number of households in UK	Estimated number of households (rounded to nearest 100,000)
% and population estimate of UK households experiencing a broadband or mobile (in those that own a smartphone) affordability issue (in the last month)	<b>7%</b>	27,792,000	<b>1,900,000</b>
Upper Bound	7.9%		2,200,000
Lower Bound	5.5%		1,500,000

### Technology Tracker population estimates

A2.25 The data tables for this analysis can be found [here](#).

**Table A14: Households that are mobile internet-only<sup>155</sup>**

Technology Tracker CATI research	
	<b>UK Households</b>
	<b>February to March</b>
Weighted Base	2088
Percentage of base that connect to the internet at home via mobile broadband only	<b>5%</b> (n = 110)

	February to March	ONS – number of households in UK	Estimated number of households (rounded to nearest 100,000)
% of base connect to the internet at home via mobile broadband only	<b>5%</b>	27,792,000	<b>1,500,000</b>
Upper Bound	6.2%		1,700,000

<sup>155</sup> See definitions later in this annex.

Lower Bound	4.3%		1,200,000
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**Table A15: Households that do not have and are unlikely to gain access to the internet in the next 12 months at least partly due to cost**

**Note:** Due to the low number of respondents contributing to this proportion, and that it is being combined with another data source, we use the lower bound for this percentage to generate the population estimate reported in this analysis.

	<b>% of those who do not have internet in their household and are unlikely to gain access partly due to cost</b>	<b>% of UK household sample</b>
Weighted Base	101	2088
Percentage of base that cite that 'Broadband set up costs are too high' OR 'Monthly cost of a fixed broadband service is too high' OR 'Monthly cost of a mobile phone service is too high' as a reason why they are unlikely to gain access to the internet in the next 12 months.	15% (n = 15)	<b>0.7%</b> (n = 15)

	<b>Technology Tracker</b>	<b>ONS – number of households in UK</b>	<b>Estimated number of households (rounded to nearest 100,000)</b>
% of base that cite that 'Broadband set up costs are too high' OR 'Monthly cost of a fixed broadband service is too high' OR 'Monthly cost of a mobile phone service is too high' as a reason why they are unlikely to gain access to the internet in the next 12 months.	<b>0.7%</b>	27,792,000	200,000

Upper Bound	1.1%		300,000
Lower Bound	<b>0.4%</b>		<b>100,000</b>

## Combined population estimate

- A2.26 We have also included a population estimate (table A16) that combines figures from these two trackers. From the *Covid-19 Affordability Tracker*, we use the number of households that reported having at least one affordability issue with their broadband service in the past month and those that own a smartphone and reported having an affordability issue with their mobile service in the past month (table A13 above). We have then combined this with the lower range estimate for the number of households that do not have internet and don't intend to get this at least partially due to cost from the *Technology Tracker* (table A15 above). This provides an estimate for the number of households that had an affordability issue with broadband and/or smartphone services in the past month or do not have the internet at home, with cost a factor.
- A2.27 Although these two trackers are different research projects, they both used the same methodology; a CATI survey using Ipsos' CATI omnibus and are both weighted to represent all UK adults. Therefore, it is likely that the respondents of both surveys are similar and comparable.
- A2.28 However, there will still be some differences in sampling, methodology and time of data collection across these trackers. Additionally, the *Technology Tracker* figure is based on a respondent's reasoning for why they haven't done something, rather than their lived experience of something that has happened to them (as in the case of experiencing an affordability issue with either Fixed Broadband or Mobile). To account for this, we have used the lower bound estimate of the number of households that do not have internet and don't intend to get this at least partially due to cost when combining the two population estimates. By doing this, we can be sure that at least this number of households do not have and do not plan to get the internet, with cost a factor. The working for combining these two figures is given below, in table A16.

**Table A16: Households that had an affordability issue with broadband and/or smartphone services in the last month, or do not have internet at home with cost a factor**

	Number of households that had an affordability issue with broadband and/or smartphone services in the last month.	Number of households that do not have internet at home with cost a factor <sup>156</sup>	Combined: Households that had an affordability issue with broadband and/or smartphone services in the last month, or do not have internet at home with cost a factor
Number of households	1,900,000	100,000	2,000,000
Upper Bound	2,200,000	300,000	2,500,000
Lower Bound	1,500,000	100,000	1,600,000

## Definitions

**Any affordability issue:** Some consumers experienced more than one affordability issue either within a given service and/or across multiple services. The nets for ‘any affordability issue’ only count multiple issues/services once.

**Affordability issues with multiple services:** This includes those who have the same issue with multiple services. Those who had more than one issue are only counted once.

**Mobile internet-only:** Defined as those whose only method of accessing the internet is through a mobile phone or other mobile broadband device (for example a dongle or USB device).

**Impacting or limiting conditions:** These are households with a resident that has any conditions that impact or limit their use of communication services. These can include, but are not restricted to, problems with hearing, eyesight, mobility, mental abilities or mental health.

**Lowest household income category:** Household income below £10,400 per year.

**Currently unemployed and looking for work:** These are respondents who when asked about their current work status, answered that they are currently unemployed and seeking work. We are not able to distinguish between those who became unemployed before or during lockdown.

**Receive at least one benefit:** These are households who receive one or more of the following benefits: income support, income-based job seeker’s allowance, pensions credit (guaranteed credit), pensions credit (no guaranteed credit), employment and support allowance (ESA), universal credit (both with and without earnings in addition to this), personal independence payment (PIP), carer’s allowance, or ‘other’ form of benefit. Those who receive more than one form of benefit are not double counted.

<sup>156</sup> This estimate uses the lower end of the error margin for this data point due to it being combined with other data sources, see table A15.

**Receive means tested benefits, zero earnings:** These are households who receive one or more of the following benefits: income support, income-based job seeker's allowance, employment and support allowance (ESA), universal credit (without earnings in addition to this). Those who receive more than one form of these benefits are not double counted.

**Receive means tested benefits:** These are households who receive one or more of the following benefits: income support, income-based job seeker's allowance, employment and support allowance (ESA), universal credit (both with and without earnings in addition to this). Those who receive more than one form of these benefits are not double counted.

**DE socio-economic group:** Households where the chief income earner (CIE) falls within one of the following categories: semi-skilled and unskilled manual workers; state pensioners, casual and lowest grade workers, unemployed with state benefits only.<sup>157</sup>

**White Decision Maker:** These are decision makers for a household who stated that their ethnicity fell into one of the following categories: White British, White Irish, White Gypsy/Traveler, White other.

**Asian Decision Maker:** These are decision makers for a household who stated that their ethnicity fell into one of the following categories: Asian Pakistani, Asian Bangladeshi, Asian Chinese, Asian other.

**Black Decision Maker:** These are decision makers for a household who stated that their ethnicity fell into one of the following categories: Black African, Black Caribbean, Black other.

**Mixed Decision Maker:** These are decision makers for a household who stated that their ethnicity fell into one of the following categories: Mixed White and Asian, Mixed White/Black Caribbean, Mixed White/Black African, Mixed other.

**Other ethnicity Decision Maker:** These are decision makers for a household who stated that their ethnicity fell into one of the following categories: Other, Mixed other, Arab (n.b. this group was included here as there were not enough respondents in this group to consider individually).

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<sup>157</sup> This definition is provided by the [National Readership Survey](#).