StepChange response to Ofgem Call for Input: Affordability and debt in the domestic retail market

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Contact: emily.whitford@stepchange.org

StepChange Debt Charity London Office Floor 3,
27 Queen Anne's Gate, London SW1H 9B

Summary

StepChange Debt Charity is a specialist not-for-profit provider of debt advice and debt solutions supporting people across the UK. In 2023, 620,069 people contacted StepChange seeking debt advice or guidance with their problem debt and over 180,000 people completed full debt advice through our online and telephone service.

We warmly welcome Ofgem's decision to open this Call for Input (CFI) on affordability and debt in the domestic energy market. It is encouraging to see the regulator acknowledge the enduring, significant nature of the energy affordability challenge consumers are facing, and the need to make improvements to the wider debt pathway for those who find themselves falling behind on bills. Energy suppliers, Government and Ofgem all have an important role to play in bringing about crucial developments in these areas.

We strongly believe that holistic reform of the energy price model is needed to deliver long-term affordability to those at risk of fuel poverty, and to provide sufficient protection and assistance to those struggling with energy debts. This includes the implementation of a social tariff in the energy market which protects vulnerable consumers, including those on the lowest incomes, alongside the adoption of a 'Help to Repay' style payment matching and debt relief scheme, and other constructive reforms.[1]

There is a pressing need to increase protections for, and improve the experiences of, customers struggling to keep up with energy bills and consequently interacting with the energy debt pathway. Key problems we continue to see at StepChange include energy suppliers failing to identify and take account of consumer vulnerability, suppliers making unaffordable demands for repayment, and the use of aggressive or inappropriate debt recovery methods. We set out in our response urgent steps to address these issues.

An important element of this conversation is properly and appropriately funded personal debt advice. Energy industry funding in this context is crucial. While we welcome that some energy suppliers have worked with some parts of the sector to provide financial contributions to debt advice providers, including to StepChange, there are currently no regulatory obligations on suppliers to do so. This means such support is inconsistent and there is a notable risk that this could wane in the future.

We would therefore like for there to be stronger requirements on energy suppliers to fund debt advice in a thorough and sustainable way, as is already the case for other sectors including the financial services industry. We are open about the method for delivering this funding; a more explicit focus on supporting people with energy debt in the Industry Initiatives element of the Warm Home Discount Scheme might be a starting point.

[1] National Energy Action (2023) Social Tariff Letter and Money Advice Trust (2023) Joint Autumn Statement submission from seventeen organisations: Proposal for a 'Help to Repay' scheme on domestic energy bills

Responses to questions

Energy affordability and impacts on consumers

Q1: What are the key drivers of energy affordability challenges and how do we expect those to change in the future?

Energy debt is the most common priority debt StepChange clients face – a trend which, importantly, predates the cost of living crisis. For many of those with the lowest and most precarious incomes, which includes lots of our debt advice clients, fuel poverty is a daily lived experience. To put this into perspective, around two in five (41%) StepChange clients in 2023 were spending more than 10% of their income on energy. The widening and deepening of financial distress in recent years has shone a more prominent light on the issue, but it is certainly not a temporary problem; the necessity of intervention has just become harder to ignore.

In 2023, 42% of our debt advice clients responsible for paying energy bills had energy arrears and 45% of this group had a negative budget, meaning after going through a full debt advice and budgeting session, their monthly income is not enough to cover their basic monthly costs. Feedback from our debt advisers highlights some of the worrying consequences this financial difficulty can have on our clients, from causing or exacerbating mental health problems through to detrimental physical health impacts due to self-rationing. The below case study, recorded in August 2023 by one of our advisers, exemplifies this:

> *The client, who has a negative budget, said she has been receiving "17 texts per day" from her energy supplier chasing arrears. The client, who has arthritis, has completely stopped using her gas as a result, which is negatively affecting her physical health. The frequency of this contact is also causing anxiety for the client.*

While it's positive that energy bills have fallen over recent price cap periods, it's crucial to situate this in the wider context that the current price cap average of £1,690 per year for a typical household is still around two thirds higher than before the cost of living crisis began. Not only this, but Cornwall Insight projections suggest that high energy bills are likely to remain in place until at least the 2030s.[2] It is therefore vital that solutions designed to tackle energy affordability and debt are explored at speed.

StepChange debt advice client data demonstrates the lasting impact that high energy prices have had on our clients. Over the course of last year, the average amount of energy arrears per StepChange client deepened by 27% from an already steep £1,608 in January to £2,050 in December 2023. These figures echo Ofgem data which shows that total consumer energy debt and arrears have increased by about 50% from roughly £2bn to £3bn in the last 12 months alone. Importantly, this data conceals a wider picture: that the *number of households* facing debt and arrears has not only increased – from 1.9 million to 2.3 million during 2023 – but the *amount of individual debt* held has grown even more rapidly.

[2] Cornwall Insight (2023) New forecast warns power prices to remain elevated until late 2030s

Not only this, but StepChange research indicates a challenging year ahead for people's finances. In nationally representative polling conducted in December 2023, more than two in five adults (43%), around 22 million people, said they expect their household financial situation to get worse over the next year. Three quarters (74%) of this group, around 16 million people, said a reason for this was because of energy bills going up in January.[3]

Our research shows that even many in full-time employment are struggling to make ends meet, with one in five (21%) StepChange clients in this position facing a negative budget in 2023.[4] A 'cost of living increase' (26%) emerges as the primary reason for debt among clients in full-time employment.

At StepChange, we understand that not being able to keep up with essential bills can be the trigger for coping mechanisms that start a downward spiral into severe problem debt. Among those who said they were struggling to keep up with household bills and credit commitments at the beginning of May 2024 (40% of UK adults), four in 10 (41%) had recently borrowed using commercial credit to pay for essentials.[5] Those borrowing to keep up are at much higher risk of developing serious debt problems because increasing debt and repayments further reduce income, compounding difficulty making ends meet. Rising energy debt levels, and predictions of future affordability challenges, highlight just how severe the problem has become, and that it is not something which will go away overnight or without intervention.

Q2: What options should be explored to tackle energy affordability?

There are numerous actions which could and should be urgently explored to tackle energy affordability; we have outlined some possible interventions below. Not all of these lie directly at Ofgem's door, but as the regulator of the energy industry, it has a significant role to play in advocating for constructive changes outside of its remit in line with its primary responsibility to protect consumers. We are therefore pleased to see Ofgem state that it intends to consider what can be done in its capacity, and where it may need to make recommendations to others.

The implementation of an energy social tariff

StepChange has consistently called on Government to implement an energy social tariff which addresses affordability challenges in billing and protects vulnerable consumers, including those on the lowest incomes – a concept which Government committed to consider in the 2022 Autumn Statement.[6]

We remain strongly of the view that this is an essential step to achieve energy affordability for all financially vulnerable groups. Support for this is wide-ranging, from charities and consumer groups through to Energy UK and the Energy Security and Net Zero Committee.[7] We are pleased that Ofgem has previously endorsed such a move, and would urge it to continue amplifying its importance to Government in the context of enduring energy affordability challenges.[8] It is rare to achieve such a consensus across such a wide range of stakeholders, but it is testament to the strength and necessity of the proposals.

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[3] StepChange Debt Charity (2024) Two in five people say their household financial situation will get worse over the next 12 months
[4] StepChange Debt Charity (2024) One in five StepChange clients who are in work unable to make ends meet
[5] StepChange analysis of polling from YouGov Plc. Total sample size was 2,168 adults. Fieldwork was undertaken between 8th - 9th May 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+).
[6] HM Treasury (2022) Autumn Statement 2022; HM Government (2023) *Powering Up Britain: Energy Security Plan*; and National Energy Action (2023) Social Tariff Letter
[7] National Energy Action (2023) Ninety-five organisations call for the introduction of a social tariff; Energy UK (2023) Government must switch on to help vulnerable energy customers this winter; Energy Security and Net Zero Committee (2023) *Preparing for the Winter report*
[8] Ofgem (2023) Jonathan Brearley's speech at the Institute for Government

Crucially, much of the exploratory work to consider what a discounted, targeted support mechanism aimed at those in greatest need might look like has already been done; several prominent charities and consumer groups have carried out detailed research, policy and costing exercises to investigate this. This includes the likes of Citizens Advice, Age UK and National Energy Action.[9] This knowledge base and consensus needs to result in concrete policy change.

Ofgem should use its platform to push for Government to take this immensely valuable work as a springboard to consult at speed on how a social tariff might be implemented, and bring this about.

‘Help to Repay’ scheme for energy arrears

StepChange supports calls for a Government-backed ‘Help to Repay’ scheme to clear bad debt arising from the present period of exceptional energy costs and debt, via payment matching and debt relief for eligible customers.[10] This would not only support suppliers to deal with bad debt but also helps customers with arrears to repay affordably. As Ofgem and the Government take forward discussions and consultations about the future of the domestic energy market, a key consideration must be establishing mechanisms to support good outcomes for customers in vulnerable situations with energy arrears.

The temporary adjustment to the price cap to account for additional debt-related costs illustrates the limitations of the present approach.[11] This intervention, while helpful from a supplier perspective, does nothing to constructively tackle the issue of consumer affordability itself – instead leaving many paying even more for their bills than before. As Ofgem itself acknowledges in this CFI, this type of adjustment does not address the *underlyin*g issue of bad debt. We would therefore like to see the regulator (and Government) thinking more innovatively on the subject and making decisions geared towards alleviating pressures on consumers’ bills, rather than adding to them.

In our response to a previous policy consultation exploring this topic, we made it clear that we feel an alternative approach, based on the ‘Help to Repay’ model outlined above, should be pursued.[12] We would like to see energy suppliers offering full or partial debt relief in the form of writing off eligible energy arrears, and repayment matching – for example, by matching each pound repaid with an equivalent amount of debt relief, or providing debt relief on remaining arrears after a certain period of ongoing payment. We would welcome efforts by Ofgem to encourage firms to do so, in the current and hopefully temporary absence of Government funding.

This support should be complimented by a prompt process to consult on a social tariff, including a more holistic funding solution to ensure good outcomes for those struggling with energy debt.

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[9] Social Market Foundation and Citizens Advice (2023) *Fairer, warmer, cheaper: new energy bill support policies to support British households in an age of high prices*; Age UK (2023) *Keeping the lights on: The case for an energy social tariff Discounted bills so older people can keep warm and well at home* and National Energy Action and Fair by Design (2023) *Solving the cost of living crisis: The case for a new social tariff in the energy market*

[10] Money Advice Trust (2023) Joint Autumn Statement submission from seventeen organisations: Proposal for a ‘Help to Repay’ scheme on domestic energy bills

[11] Ofgem (2023) Energy price cap: additional debt costs review decision

[12] StepChange Debt Charity (2023) StepChange response to Ofgem consultation on additional debt-related costs allowance

Standing charges reform

StepChange recently responded to Ofgem's CFI on standing charges, welcoming the regulator's decision to open the conversation about reform and its recognition that standing charges are a particular burden for some consumers, especially those at the lower end of income distribution.[13]

The substantial increase to these charges in recent years has been especially troubling for those on low incomes and prepayment meters (PPMs), as well as those with low energy usage – with notable overlap between these groups. People in this position will often be trying to reduce energy usage wherever possible but are still left unable to avoid these fixed daily costs.

Importantly, 11% of StepChange clients had a PPM in 2023. High standing charges are particularly concerning for this group of customers, because these charges accrue even when no energy is being used and these costs must be cleared before a PPM customer can access energy again – a situation which worryingly impacts the likelihood of self-rationing among PPM customers.

While standing charges reform wouldn't address energy affordability challenges as a whole, it is still a worthwhile consideration which – if executed appropriately – could bring about notable positive changes for some financially vulnerable consumers. We encourage Ofgem to consider interventions designed to improve outcomes for low-income households disadvantaged by the current standing charges set-up, while protecting vulnerable customers with high energy consumption needs – for example, those who are dependent on medical equipment or a warm home.

Impacts of affordability and debt on the market

Q3: What factors should be considered when redistributing costs?

We are not responding to this question at this time.

Q4: To what extent is debt a factor that puts suppliers off taking on new customers or offering certain types of services and tariffs to them?

Q5: With reference to the themes and indicators in our Competition Framework, to what extent is the affordability of energy and the build-up of legacy debt affecting competition and innovation (including new entry) in the domestic retail market?

Under current rules, there is a bar which prevents energy customers who are in debt from switching to other suppliers if their debt goes above a certain limit. If and when price competition reopens in the energy market, there is a considerable risk that a significant number of people whose energy debts have built up in recent years will be left trapped on unsuitable – and in some cases higher – energy tariffs than they otherwise would be if they had the option to move around. The negative impacts of this could be widespread given the period of exceptionally high energy costs and debt levels we are facing, and would likely be especially pronounced for lower-income households.

This is concerning and we would encourage Ofgem to consider the worrying fairness implications here, and to explore possible interventions to make sure the market works well for all customers, not just those who are in a more comfortable financial position.

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[13] StepChange Debt Charity (2024) StepChange response to Ofgem call for input on standing charges

Addressing the affordability and debt challenge

Q6: What represents best practice in debt management by suppliers?

StepChange has so far been pleased with progress Ofgem has made, and intentions it has expressed, around improving the experiences of customers facing the energy debt pathway and rooting out poor practice by suppliers. In particular, the mandatory PPM moratorium and Ofgem's subsequent revisions to consumer standards in license conditions and guidance reflects a welcome increase in expectations of outcomes for consumers struggling with energy debt. We fully support these higher standards, and we also welcome Ofgem's acknowledgement that approaches to debt management should be holistic.

However, there is still significant work to be done to ensure customers in and at risk of energy debt are being treated fairly and responsibly. Ofgem notes in this CFI the importance of ensuring debt is managed in a compassionate and sustainable way; our research and client insights unfortunately show that this is not always the case.

StepChange insights on the treatment of debt advice clients by energy suppliers

StepChange debt advisers have submitted hundreds of social policy case studies over the last year, concerning client experiences with energy suppliers. These reveal several trends and examples of poor practice by suppliers. Some of these are featured below, with accompanying case studies:

- **Suppliers' poor treatment of customers in vulnerable situations**.
  Advisers continue to note cases where a person with characteristics of vulnerability, as well as those experiencing major negative life events, have been treated poorly by their suppliers with minimal consideration given to their circumstances. This has often persisted even in cases where a customer has declared their vulnerabilities on more than one occasion.

  - *The client, who is **registered blind**, received a large estimated bill from their energy supplier, which had said it was no longer receiving signal from the client's meter. The client asked if a representative could visit the property to fix the meter and take a reading as the client cannot do so themselves – but this has not been actioned. The client is **consistently directed online, despite not being able to navigate this space**, and has had a difficult time speaking to anyone over the phone.*
    – Recorded June 2023

  - *The client, who has a heart condition which requires machines to monitor her health, is **unable to afford to adequately heat the property**. The client has been offering to pay her energy supplier as much as she can, £30 per month. Her supplier had agreed to this, but then sent out a letter **threatening court action and to fit PPM meters, even though the client could risk self-disconnection** and having the heart monitoring equipment turned off. The client called to discuss the arrangement she had set, only to be told by another advisor that they will not accept any payment lower than £232 per month. The client was left **stressed about the prospect of a PPM being fitted**.*
    – Recorded December 2023

- **Harmful billing practices and unsustainable debt collection**.
  Advisers report that suppliers can put undue pressure on customers to accept unreasonable repayment rates, or have a PPM installed. Some clients are seeing direct debits go out of their accounts at a much higher rate than expected (or in some cases agreed) without warning.
  - *The client, who has depression and lives alone in a small flat, had a smart meter fitted which gave a **large and seemingly unreasonable bill**. An engineer came to check the meter, confirmed it was faulty and fitted a new one, but the supplier argued that the original meter wasn't defective and that the bill had been correct. The client subsequently **offered a repayment amount that felt affordable to her**, but this was declined, and she was threatened with legal action; she also said the member of staff she spoke with was unpleasant to her. The client has struggled to get in touch with the supplier since, and her **mental health has worsened** due to this situation. – Recorded November 2023*

- **Suppliers not accepting debt adviser budgets.**
  We have highlighted concerns to Ofgem that suppliers sometimes do not accept budgets and reasonable repayment offers provided by free debt advice providers. StepChange debt advisers unfortunately continue to report that this inconsistency persists. This is ultimately likely to lead to poor outcomes for customers, including customers turning to harmful coping mechanisms to try and reduce their energy bills.
  - *The client, who has vulnerabilities which mean they **need a continuous supply of electricity**, reported that their supplier is refusing to accept StepChange's suggestion of £1 per month for arrears, and not letting the client send their Personal Action Plan on. The supplier is **threatening bailiff action** and failing to take into account the client's vulnerabilities, leaving them stressed and feeling unable to contact the supplier. The client is **too scared to put the heating on**, which is negatively impacting their health. – Recorded November 2023*

- **Lack of clarity on bill breakdown between usage and arrears.**
  StepChange advisers continue to report poor communication from suppliers around the make-up of energy payments. This includes suppliers seemingly withholding information from customers in arrears about the breakdown of energy payments between regular usage and debt repayments, which prevents the client from moving forward with debt advice.
  - *The client's supplier is asking for StepChange advice but not providing the client with usage figures versus arrears. The client has called the supplier twice to establish this but can't seem to get a clear answer, as everyone he rings tells him different figures. The client is elderly, and this is causing distress. – Recorded December 2023*

- **Flawed customer service and miscommunication**. Clients have described significant miscommunication from suppliers about the amount of arrears owed, leading to negative mental health impacts. One elderly couple feared they would have to sell their house to meet the cost of their bills; it eventually transpired the supplier had billed them incorrectly – with their experience below:

- *The clients, who both **suffer with their mental health**, had been sending monthly meter readings to their supplier and had never missed a payment. They recently switched to a smart meter and subsequently received a letter telling them they had arrears of £13,500. The clients were left very distressed, **fearing they needed to sell their house** to be able to pay these arrears. They had called their supplier a few times, explaining that they didn't understand how this amount could have accrued, and each time were told they had to pay.*

  *StepChange ran through a debt advice session and suggested complaining formally to the supplier and the option to escalate to the Energy Ombudsman if they were still unhappy. On calling and complaining again with their reference number they were told that **they didn't have any arrears**, and in fact were owed money by the supplier. Although very relieved, this situation caused them significant distress which could have been avoided. – Recorded November 2023*

- **Continued contact during Breathing Space period.** Multiple advisers report this. One adviser told us about a client who experienced an enforcement agent acting on behalf of her supplier attending her address and filming content including open windows, despite being told he wasn't allowed to be there. The actions of the enforcement agent left this client feeling unsafe in her own home.

- *The client has Breathing Space in place, yet an enforcement agent acting on behalf of their energy supplier has attended the address and filmed content including open windows. The client told the representative that he was not allowed to be there, but he wanted to post a letter through the door. The actions of the agent, including taking videos of her property, has left her feeling unsafe. – Recorded December 2023*

Work on the energy debt pathway

Our experience as a free debt advice provider supporting clients in vulnerable situations strongly suggests that there is considerable progress to make by suppliers to fully implement responsible debt collection practices. We have particular concerns around suppliers failing to take account of vulnerability, inconsistency in how a customer's ability to pay back arrears is determined by suppliers, and the use of punitive enforcement methods.

Ofgem should build on its new consumer standards framework and Energy UK's 2023 Winter Voluntary Debt Commitment to continue actively improving the experiences and outcomes of households experiencing energy debt. While the latter did send a welcome message about the importance of supporting those struggling with energy debt, it offers little new practical support or measures and is not a substitute for concrete improvements in regulatory policy and supplier practices.

We would especially like to see improvement in the following areas:

- **Assessments of a consumer's ability to pay should be conducted using a robust budget tool such as the Standard Financial Statement (SFS)**, or the Common Financial Tool (CFT) in Scotland, to ensure consistency across the sector and with debt advice. For customers in financial difficulty, there should not be room for suppliers to argue that repayment plans are 'suitable' without evidence from a robust affordability assessment which also takes account of other debts where applicable. Crucially, to ensure that repayment plans are sustainable, individuals should only ever be required to pay what they can afford. Best practice debt collection should be based on an assessment of means and affordability, with the expectation for nil or token payments in cases where individuals are in a deficit budget. The industry-wide use of the SFS and CFT or equivalent tools is an important step to achieve this.

- **Affordability should be considered before suppliers use deductions from benefits ('Fuel Direct') to recover energy debts.**
  StepChange research has shown that deductions from benefits to repay energy debts, which are made at a fixed rate, can be unaffordable and contribute to hardship, desperation borrowing and debt problems.[14] While Fuel Direct can be a useful tool to help customers repay energy debt with consent, there is no assessment of affordability by the Department for Work and Pensions before these deductions are attached, and suppliers should not use them as a tool to circumvent the need to consider affordability.

- **Supplier license conditions would benefit from greater prescription to ensure households do not face inappropriate and unfair enforcement methods**.
  Current conditions do not require a specific 'ability to pay' affordability assessment and will still allow suppliers to demand an undefined 'reasonable' default repayment rate where it has not been possible to establish a bespoke affordable rate. This is not sufficient to safeguard against unaffordable payments being taken from financially vulnerable households.

- **Ofgem should embed a 'test and learn' approach in its expectations of suppliers around communications and engagement.**
  Ofgem has taken welcome steps to raise firms' awareness of the importance of sensitive, empathetic communications to engage struggling customers but its expectations lag behind, for example, best practice in financial services regulation. We would encourage the regulator to reflect on insights from StepChange's *Mixed Messages* research, exploring how testing and understanding client communications can help engage people and improve outcomes.[15] This work found that people's ability to access and then act on debt advice hinges on the language, tone and presentation of communications and people in financial difficulty face a range of barriers to getting help and support, with creditor communications playing a role in this.

- Finally, **new licence conditions and guidance must be accompanied by a proactive monitoring and enforcement regime** that prevents continued failures or misconduct from suppliers.

Strengthening protections around non-PPM forms of debt collection and enforcement

The recent creation of mandatory, more prescriptive PPM guidance and rules was a necessary step in efforts to protect energy customers in vulnerable situations from poor outcomes.

That being said, we have raised concerns with Ofgem that this move might inadvertently lead to an increase in suppliers using court enforcement action as an alternative means of recovering debt. Non-PPM debt collection and enforcement, including the use of High Court Enforcement Officers (HCEOs), can pose risks to vulnerable groups which are similar to involuntary PPM installation; Ofgem itself

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[14] StepChange (2017) [Third party deductions briefing]
[15] StepChange (2022) [Mixed Messages] and StepChange (2023) [Getting the Message]

acknowledges this.[16] Some suppliers already use HCEOs to some degree and we are worried that this practice could become more prevalent as it gets harder to use involuntary PPMs to collect debt.

It is pleasing to see Ofgem directly acknowledge this concern in this CFI. Without action to improve protections, there is a risk this could lead to substantial harm. Ofgem must act urgently and proactively to quickly strengthen its requirements of suppliers pursuing enforcement of energy debts. The industry's 2023 Voluntary Debt Commitment contained some useful commitments, but the measures relating to HCEOs lacked clarity and its voluntary nature means support could be pulled at any point.[17]

We would like to see equivalent protections in place to the new PPM rules and guidance for the use of HCEOs, with specific customer groups exempted from this form of enforcement. For example, we would like to see a 'do not use' category for HCEO enforcement which would include enforcement on small debts below a certain threshold, households in receipt of means-tested benefits as well as those facing other additional vulnerabilities but not eligible for this support, alongside a wider 'Further Assessment Needed' category as per the PPM protections.

There should also be further pre-enforcement requirements on energy suppliers to engage with customers before escalating to this action and more careful consideration of the use of court or enforcement action where a person has offered an affordable payment arrangement.

More broadly, we would like to see a requirement for all bailiffs used by suppliers to be signed up and accredited with the Enforcement Conduct Board (ECB). Building on this, standards on the use of enforcement to pursue energy debt should be drawn up in collaboration with the new regulatory body.

The importance on effective referrals into debt advice

We welcome Ofgem's continued commitment to improve energy suppliers' debt management practices, and its understanding of the need to ensure the fair and sustainable treatment of customers in financial difficulty. These efforts must contain a recognition of the crucial role played by debt advice organisations in helping consumers with energy debts.

Demand for StepChange debt advice services continues to grow – up 10% in the past year – and with households still struggling with energy and other essential costs, this demand is expected to remain high well into 2024. Providing debt advice is resource intensive as our clients generally have multiple debts and increasingly are facing more extreme financial hardship. These problems can take a long time to unpick and clients with additional vulnerable circumstances require extra support.

StepChange has worked hard to build proactive and constructive relationships with many energy suppliers over time, engaging with them on referring their customers in financial difficulty. Referral volumes from energy suppliers have increased exponentially in recent years, with them becoming the largest referrers to the charity in 2023. Referral mechanisms must be effective for consumers and support organisations to ensure the best outcomes; in a time of incredibly high demand, the necessity of this could not be clearer.

[16] Ofgem (2023) Prepayment meter rules and protections for domestic consumers: a call for evidence and Ofgem (2023) Statutory Consultation – Involuntary PPM
[17] Energy UK (2023) The Winter 2023 Voluntary Debt Commitment

While the relationships that StepChange has established with a number of energy suppliers have been fruitful in many ways, this sharp increase in referral volumes has exposed some challenges. We unfortunately continue to see many cases where an energy supplier has inappropriately directed one of its customers towards StepChange, misrepresenting the services we can provide. These unsuitable referrals lead to frustration for those referred, and erode the capacity of providers like StepChange to meet demand for debt advice, which continues to outstrip supply.

For example, clients have been told by their energy suppliers that StepChange would be able to provide immediate and upfront support with emergency credit or fuel vouchers, or similar assistance, despite this not being an option. We've also picked up on some suppliers telling their customers that StepChange could facilitate energy bill reductions or help to establish accurate meter readings, which should be part of a supplier's toolkit and are not the responsibility of debt advice providers.

- *The client, who is **13 weeks pregnant**, needed to top up her electricity meter as she had no credit. She was inaccurately told by her supplier that StepChange could provide emergency credit and called as a result, with the adviser having to explain this wouldn't be possible. – Recorded July 2023*

- *The client has had a **recent cancer diagnosis**, which she said her energy supplier had not acknowledged or supported. Her supplier told her to call StepChange under the misassumption that we could reduce her direct debit from £101.49 to £23.94 within 48 hours. – Recorded August 2023*

We continue to see individuals passed onto StepChange when they are not in arrears or in need of debt advice (for example, customers with no or minimal debts are told they need to obtain a budget assessment from StepChange to access emergency support from their supplier).

- *The client, who is **elderly with many vulnerabilities including cancer and limited use of her hands**, only has one debt of £129 with her energy supplier but was nevertheless referred to StepChange. She was very upset by the situation. – Recorded December 2023*

These case studies indicate that suppliers are not always thinking hard enough about why they refer to debt advice and whether it's appropriate to do so, and hence what a customer's needs are and whether the firm can (and should) meet them itself. Worryingly, some could suggest that energy suppliers might – in some cases – be using debt advice referral as a buffer to avoid providing actual direct help, even when this is more suitable for the customer. This is perhaps indicative of suppliers not having the right processes in place to support customers directly where that's appropriate.

Guidance for energy suppliers that encourages referrals into debt advice must make clear that services, including staff training, should be designed to ensure advice referrals are appropriate for customers and avoid placing undue capacity pressure on external agencies with inappropriate referrals. This will reduce poor advice journeys for energy customers and enable organisations like StepChange to make sure our resources are channelled appropriately and that we continue to be a more efficient and effective provider for our partners.

Q7: What lessons can we learn from other sectors and countries on managing affordability and debt? And how should they be applied to the energy sector?

Energy industry funding for debt advice

One area where the domestic energy sector varies from other sectors which are a source of consumer debt is in funding for free debt advice. The energy debt and affordability challenge shows no imminent signs of abating and without further intervention from the Government, Ofgem and energy suppliers, financially vulnerable households will face real hardship as widespread problem debt continues to become more prevalent.

The debt advice sector plays a pivotal role in supporting households with energy debts. This responsibility has become even more significant in light of the ongoing cost of living crisis, as more and more people turn to us with unaffordable energy debts. In 2023, around two in five (42%) StepChange clients responsible for an energy bill had energy arrears, at an average amount of £1,826. These clients often face complex circumstances and are particularly susceptible to financial and personal vulnerabilities. Among new StepChange clients who were in energy arrears in 2023:

- 45% had a negative budget, compared to 24% of those without energy arrears.
- 54% were in receipt of Universal Credit, compared to 28% of those without energy arrears.
- 64% had an additional vulnerability beyond their financial situation, compared to 51% of those without energy arrears.

Despite the high number of clients presenting with energy debts and the challenging experiences they face, there is currently no legal or regulatory obligation for energy suppliers to provide financial support to debt advice providers. While StepChange has worked hard with suppliers to generate the financial contributions that certain energy suppliers have given to us in recent years, including via the Industry Initiatives element of the Warm Home Discount Scheme, this level of support is not guaranteed. This leaves our ability to provide desperately needed debt advice to those experiencing energy debts, and other financial difficulties, in a precarious position.

The value of well-funded debt advice in addressing affordability and poverty issues cannot be understated, and we would like Ofgem to act to place a stronger requirement on energy suppliers to provide funding to debt advice providers which ensures the sustainability of this important provision. While we are open about the method, one possible starting point could be via the Industry Initiatives aspect of the Warm Home Discount Scheme, with an increased acknowledgment and focus on the value of well-funded debt advice in tackling these challenges (for example, helping people to budget, deal with arrears and access wider energy support), and encouragement of increased industry funding through this scheme.

Learning from financial services regulation

Ofgem can learn from developments in the financial services sector. We would particularly highlight how the approach of the Financial Conduct Authority (FCA) offers learnings for how Ofgem could support suppliers to more effectively identify and support customers struggling with energy bills, better embed key concepts such as consumer vulnerability in its expectations of firms, and use high level principles to more effectively influence supplier conduct.

First, the FCA has created requirements for banks to operate data driven early intervention strategies related to repeat overdraft use.[18] These rules require banks to do four things:

- identify and monitor repeat overdraft use;
- communicate and engage with customers showing patterns of repeat use;
- make appropriate interventions to support these customers, such as practical advice, referrals to free debt advice and repayment solutions; and
- monitor the effectiveness of repeat use policies and procedures.

We note Ofgem's requirements on firms to identify and support customers who are self-disconnecting. Where Ofgem could go further than its present approach is in requiring firms to develop strategies to identify broader patterns of payment difficulty (such as late or missed payments), provide appropriate support to customers and embed an expectation of monitoring and continuously improving their approach.

The FCA's requirements on banks and credit firms to identify and support borrowers in difficulty with credit products beyond overdrafts are also relevant. In particular, the FCA requires firms to:

- proactively identify and engage with customers in difficulty (rather than relying on customers themselves to seek help);
- provide prompt, tailored support including referrals to free debt advice and setting out appropriate forbearance options; and
- ensure that repayment proposals are affordable and sustainable; and
- review repayment agreements at appropriate intervals to ensure they remain suitable.[19]

Again, we note the emphasis in these rules on a proactive rather than reactive approach, and more prescription around core expectations of firms than Ofgem license conditions while maintaining flexibility for firms to develop tailored approaches and good practice.

We have noted in this response that Ofgem's current license conditions on repayment proposals are poorly framed and leave too much latitude for suppliers to put pressure on customers (whether deliberately or inadvertently), contributing to the common experiences we see among clients of unrealistic repayment demands that ultimately make their situation worse. While there is inevitable variability in conduct among financial services firms, we would expect the strong emphasis in the FCA's rules on the importance of sustainable of repayment agreements to lead to better outcomes.

Finally, regulators like Ofgem can learn from the FCA's decision to establish the Consumer Duty in financial services. The Duty requires regulated firms to act to act to deliver good outcomes for customers. The Duty is supported by cross-cutting rules that firms must act in good faith towards customers, avoid foreseeable harm and enable and support customers to pursue their financial objectives. Four outcomes set out detailed expectations in key areas (products and services, price and value, consumer understanding, and consumer support).

Broadly, the Duty was put in place because the FCA has been forced to repeatedly intervene in the market to address problems of firm culture and conduct that led to poor outcomes for customers, for example in its ban on unauthorised overdraft fees and well-publicised interventions in the high-cost credit market.

While the Consumer Duty is relatively new, it has been effective in setting a clear expectation that firms must meet a higher standard. This has relevance to Ofgem's work, where strong evidence that firms have

[18] Financial Conduct Authority (2023) *Evaluation Paper 23/1: An evaluation of our 2019 overdrafts intervention*
[19] Financial Conduct Authority (2024) *PS24/2: Strengthening protections for borrowers in financial difficulty: Consumer credit and mortgages*

fallen short in their approach to supporting customers in vulnerable situations has demanded a series of significant interventions. Ofgem should consider whether it needs to establish clearer high-level principles and expectations of suppliers to avoid a persisting detriment-intervention cycle that does not address underlying problems of supplier culture and conduct.

The Consumer Duty can also offer learning for Ofgem in the manner in which it centres concepts of consumer vulnerability and a continuing test and learn approach to product and service design.

The problems we have described of suppliers being unaware that their customers are in vulnerable situations reflects a comparatively limited understanding and application of consumer vulnerability to service design. The Consumer Duty is important because it sets a cross-cutting expectation than consumer vulnerability will inform the approach of firms in applying the wider Consumer Duty expectations: it is a crucial prism through which firms must consider whether their products and services are fit for purpose.

The data cited in this response demonstrates the high level of overlap between customers in vulnerable situations and difficulties with energy bills. Whilst Ofgem has maintained an active programme around consumer vulnerability, its expectations of firms relating to vulnerability have tended to be narrower than in financial services, focusing for example on the Priority Services Register and concepts of 'clinical vulnerability', self-disconnection rules and accessibility. As a result, we are still in a position where vulnerability is still somewhat siloed as a concept in the energy sector and firms have not fully incorporated risks linked to consumer vulnerability into their culture and service design. The Consumer Duty offers a practical example of how to make consumer vulnerability a cross-cutting concern for suppliers in everything they do that affects customers.

Lastly, the Consumer Duty places a strong emphasis on continuous learning and development in product and service design. For example, the FCA has set the expectation that firms should pre-test their products, interventions and communications where appropriate, including through behavioural testing, refine their approach in light of experience, and continue to do so at appropriate intervals. This approach could usefully be incorporated into Ofgem's expectations of suppliers' approach to supporting customers and service design.

policy@stepchange.org

www.stepchange.org

@stepchange

0800 138 1111