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Consultation Response:

Ofgem Additional debt-related costs allowance policy consultation

Response by the Money Advice Trust

Date: November 2023

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2022, our National Debtline and Business Debtline advisers provided help to 140,980 people by phone, webchat and our digital advice tool with 1.87 million visits to our advice websites. In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2022 we delivered this free training to 2,780 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org.

Public disclosure

Please note that we consent to public disclosure of this response.

Response to consultation

Thank you for the opportunity to respond to the consultation on adding an additional debt-related costs allowance into the price cap. We have taken the decision not to respond to all the individual questions but to provide a statement response instead.

Our position on the proposed debt allowance increase

We understand from the consultation document and discussions with Ofgem that the proposals to increase the bad debt allowance in the price cap are related to a concern about suppliers' financial situation and the risk of further supplier failure. However, we do not believe the proposal to increase the allowance is justified in this instance and do not agree that it "*is in customers' interests*" - as stated in point 4.15 of the paper. We believe Ofgem should think again about its proposals to add supplier costs for administering bad debt as an allowance within the price cap. There are a number of reasons for this, as set out below.

1. Lack of support for individuals in debt and limited impact on reducing debt levels

As we understand it, such an extra allowance will benefit suppliers in allowing them to charge more to offset against their costs for recovering debt, but no individual consumer will have their debt written off, remitted or payment matched. With energy debt hitting a record level, interventions should be focused on bringing this down, and ensuring specific, targeted support for people in debt. Our new research¹ finds that:

- ✓ One in four people in energy debt (24%) cannot currently afford to repay their arrears.
- ✓ 21% said their supplier had not accepted an affordable offer of repayment.
- ✓ The same proportion (21%) have been threatened with enforcement action by their supplier, even though they had told them they were struggling to repay.
- ✓ A quarter (24%) are regularly losing sleep worrying about their energy debt.

We are therefore concerned about taking an approach that compensates suppliers for increased costs without providing (or requiring them to provide) specific support to people in debt. Later in our response, we provide suggestions for how this could be achieved.

¹ All statistics taken from nationally representative research of 2,000 UK adults commissioned by National Debtline (run by the Money Advice Trust) and undertaken by Opinium. Fieldwork conducted 17-20 October 2023 - for more information, visit www.moneyadvicetrust.org/help-to-repay/

2. Risk of rewarding poor practice

A proportion of the increase in energy arrears will be as a result of suppliers being unable to forcibly install prepayment meters as stated in point 4.19 of the paper. As this pause on installations was due to Ofgem's findings that there was poor supplier performance and bad practice in relation to forcible prepayment meter installations, it is arguable that an increase in the bad debt allowance could unfairly reward suppliers for bad practice. In addition, the proposals will affect customers of all suppliers, irrespective of whether their customer demographic is majority direct debit customers or prepayment meter customers.

3. Risk of worsening debt problems

We are concerned that these proposals will result in an increase in the payment burden on both:

- a) those who are not in debt but are struggling to pay their ongoing bills;
- b) people who are already in arrears with their energy, who will also have to find extra money for their ongoing bills.

In both instances, this creates a risk of increasing debt levels, creating further costs in the market – rather than tackling the actual level of debt, and focusing on bringing this down.

Our recent research² revealed the drastic steps some households are already having to take to keep up with energy bills – raising questions about how households would cope with any increase in bills.

- ✓ More than one in five UK adults (22%) say they have cut back on food and other essentials in order to keep up with energy bills (an estimated 11.6 million people).
- ✓ One in ten (9%) – equivalent to 4.7 million people- have sold personal possessions, while 7% have used their overdraft and 4% of UK adults turned to high-cost credit in an effort to stay on top of high energy costs.
- ✓ Two thirds (66%) of UK adults say they will reduce how much they use the heating this winter.

If the additional charge is added to the standing charges, this will exacerbate the burden on all consumers, increase payment difficulties, and consumers' ability to pay their ongoing bills, particularly where some suppliers levy higher standing charges.

² All statistics taken from nationally representative research of 2,000 UK adults commissioned by National Debtline (run by the Money Advice Trust) and undertaken by Opinium. Fieldwork conducted 17-20 October 2023 – for more information, visit www.moneyadvicetrust.org/help-to-repay/

Alternative approaches

Delay the decision on proposed increase until there is more certainty on costs and behaviour

We understand that the proposed additional charges are based on an estimate of supplier bad debt costs. We therefore believe that the decision on whether to include any additional amounts within the price cap should be delayed until it is clearer what actual costs have been incurred by suppliers.

In addition, while we welcome the new Consumer Standards, these have not yet had time to embed, nor to see how suppliers implement these. The Ofgem Consumer standards licencing statutory consultation outcome³ states:

“3.36 We are monitoring supplier behaviour and will take swift action if rules are not being followed. We are working with the sector to ensure that consumers receive good service across the whole customer journey, including the tail end when debts are being recovered.”

Indeed, these measures – if properly followed – could help to bring bad debt down, through better use of affordable repayment plans. Time should therefore be given to see how these embed and to confirm that suppliers are properly following these new rules, before decisions are taken on increasing bad debt allowances in the price cap.

Focus on specific, targeted support for people in debt

We are not convinced by the argument that an increase in the bad debt allowance in the price cap will ensure suppliers will offer support to their individual customers in debt. This might be Ofgem’s intention behind the proposals, but there is no requirement on suppliers to actually do so.

We believe that compulsory reciprocal requirements on all suppliers to provide a defined level of support for their customers struggling with energy arrears should be required by Ofgem before there can be any price cap allowance put in place. There are some positive examples of good practice by individual suppliers, which are very welcome.⁴ However, but we need to see this level of support across all suppliers, to be fair for all customers.

It is our view that any increase in the price cap should be tied to good customer service and recovery practices for people experiencing debt this Winter. Debt recovery practices should be scrutinised by Ofgem, particularly where debts are passed on for collection to debt collection agencies, court judgments and high court enforcement.

³ https://www.ofgem.gov.uk/sites/default/files/2023-10/Consumer%20Standards%20-%20Decision1697539480940_0.pdf

⁴ <https://www.eonnext.com/blog/winter-affordability-support-scheme>

We welcome the Energy UK voluntary debt commitment⁵ as a statement of the intent by suppliers in terms of how they treat customers in debt this Winter. However, there are limitations in terms of how far this goes, for example on the issue of high court enforcement, as there is no transparency as to the policies being put in place by individual energy supplier's boards on their usage. We would repeat our call for use of high court enforcement to be paused this Winter.

As Ofgem will be aware, we continue to call on the Government to introduce a Help to Repay scheme,⁶ alongside other measures, such as a social tariff, both funded by general taxation rather than through bills. While we appreciate Ofgem is limited in its ability to act on this, we remain strongly of the view that the focus must be on helping people in debt through such a scheme, rather than raising bills. This would also be in line with consumer expectations.

- ✓ Almost **three quarters of UK adults (73%) think people who have fallen into energy debt due to high prices should be given help to reduce what they owe.**⁷
- ✓ Ofgem's own consumer research showed strong support for writing off energy debt, funded by taxation rather than higher consumer bills – with this being **raised spontaneously by consumers in focus groups.**⁸

We recently led a coalition of charities to write to the Chancellor urging him to introduce a Help to Repay scheme at the Autumn Statement.⁹ If this does not happen, we would urge Ofgem to consider how they could work with suppliers to deliver a similar style of support, in terms of repayment matching and debt relief as a route to bringing down suppliers' bad debt costs.

For more information on our response, please contact:

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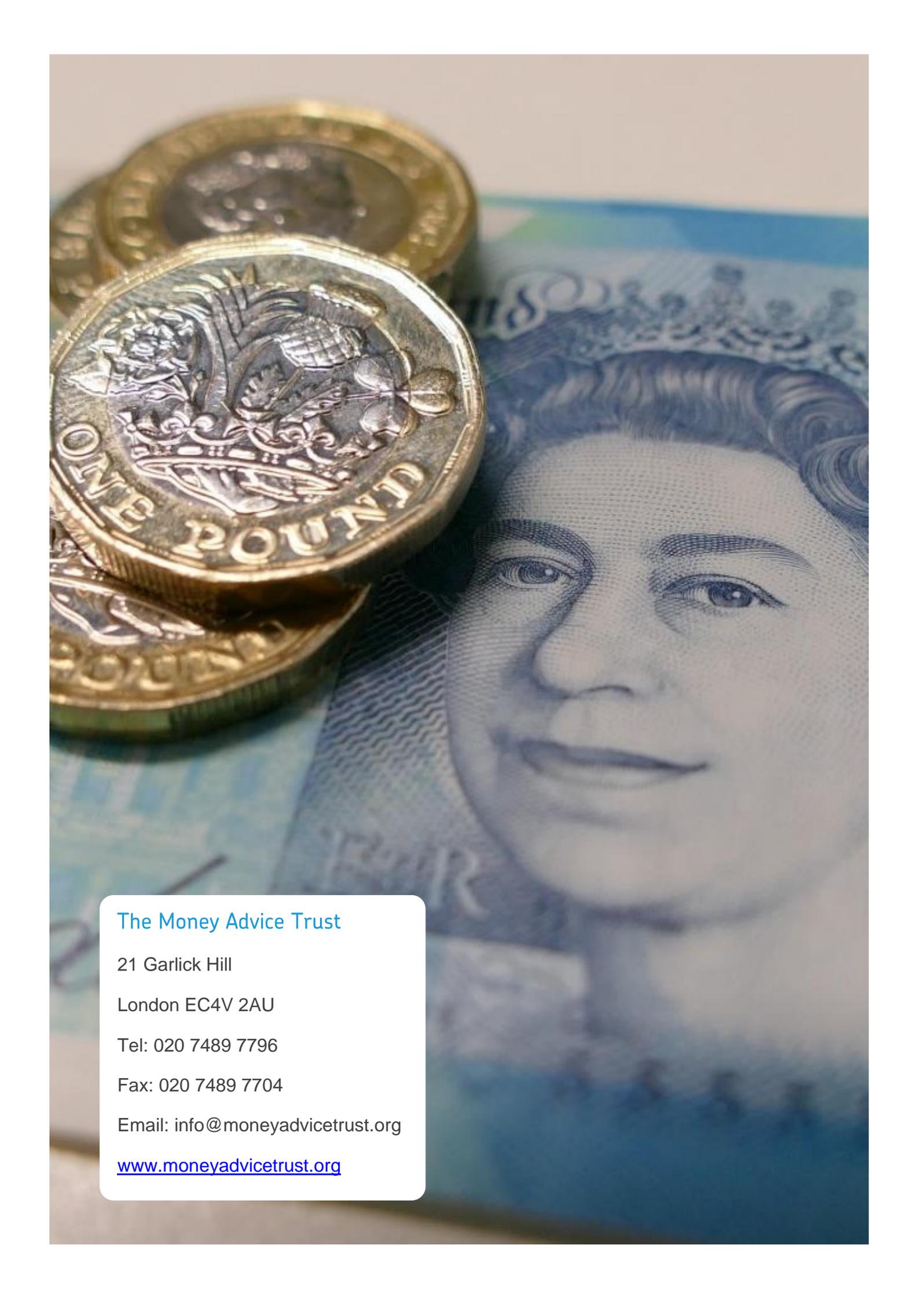
⁵ <https://www.energy-uk.org.uk/publications/the-winter-2023-voluntary-debt-commitment/>

⁶ [For more information, visit www.moneyadvicetrust.org/help-to-repay/](https://www.moneyadvicetrust.org/help-to-repay/)

⁷ Research of 2,000 UK adults, weighted to be nationally representative, conducted by Opinium on behalf of the Money Advice Trust, 25th – 28th April 2023.

⁸ Ofgem - Consumer attitudes to involuntary prepayment meter installation rule changes, April 2023.

⁹ <https://moneyadvicetrust.org/wp-content/uploads/2023/10/Help-to-Repay-Letter-to-Chancellor-25-Oct-2023.pdf>



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