

christians
against
poverty

CAP

Additional debt- related costs allowance policy

CAP's official response to Ofgem's
consultation

October 2023

Additional debt-related costs allowance policy consultation

Summary

Christians Against Poverty (CAP) has more than 25 years of experience in delivering debt help. CAP supports over 8,000 people on their journey out of debt each year and has specialist in-house teams to support vulnerable individuals. Through this experience, CAP has developed insight into the varied and complex needs of vulnerable consumers and their relationships with creditors.

- CAP does not welcome this consultation on additional debt-related costs, the majority of CAP's client base are struggling to afford their energy bills and any increase in the price cap, regardless of how much, will push households deeper into poverty.
- National YouGov polling conducted by CAP in July showed that 28% of UK adults are finding keeping up with bills and credit commitments a heavy burden and 9% now have debts that they do not know how they will repay.
- In the height of summer, polling also showed that 13% are going without electricity or gas at least monthly as a result of recent increases in the cost of living.
- There is a wider issue in that many households are unable to afford life's essentials, both rising costs and low incomes are seeing more and more households facing unmanageable debt. CAP would welcome Ofgem joining calls on the Government to urgently review levels of social security against the Minimum Income Standard.
- As an essential service, energy suppliers should be doing more to support and supply low income households. No one should be forced to cook their dinner on fires in the garden, have an entire family sleep in one room to stay warm or go to sleep at 4pm when the sun goes down because they can't afford to light their home. CAP would welcome the introduction of a statutory social tariff.
- There should also be additional scrutiny on suppliers to ensure that revenue is not wasted, and that suppliers are operating as efficiently as possible, without making huge profits.

Questions

1. Do you consider that we should make a temporary adjustment to the price cap to account for additional debt-related costs?

Christians Against Poverty (CAP) is equally as concerned as Ofgem with the rising levels of energy debt that consumers are facing. Last year's support from the Government for energy bills helped some households stay afloat. This year, without any promised support aside from cost of living support payments, CAP understands that there is going to be a growing issue with more and more customers accumulating energy debt.

This is, however, not just a maths problem. Having worked for over 25 years with people in debt, we know that being in debt can have detrimental impacts to health, both mental and physical, living standards and relationships. We also know that people with energy debt will also likely have other debts, and have been cutting back on things like food. It is therefore worth considering this issue in its entirety, instead of in isolation. What's more, as a regulator Ofgem is required to listen to, and represent the interests of, customers. The proposal to add additional cost to the price cap, and ultimately people's bills, appears to be more in the interest of suppliers.

In the current context, with around 1 million children already living in destitution¹ and one in ten of UK adults surveyed in a recent YouGov poll commissioned by CAP said that they agreed with the statement 'At times I have felt the increased cost of living has made my life not worth living', any increase on bills is surely untenable for many of the country's lowest income households.²

With the moratorium for forced prepayment meters soon to be lifted, more and more households will be facing self-disconnection, even if the most vulnerable do-not-install (DNIs) are protected. In a fair and just society, should a regulator be adding to pressure on households who are already struggling?

As a regulator who has power to pull many levers, is there not another way to ensure suppliers make a profit without detriment to already vulnerable consumers?

¹ Destitution in the UK 2023, Joseph Rowntree Foundation JRF <https://www.jrf.org.uk/report/destitution-uk-2023>

² CAP polling conducted by YouGov (2023), Polling insights: A deeper dive into the impact of the rising cost of living. Available at: <https://capuk.org/polling>

2. Do you think that suppliers' costs due to the moratorium on involuntary PPM installation should be included in the adjustment?

CAP does not think that suppliers' costs due to the moratorium on involuntary PPM installation should be included in the adjustment. It is worth noting that during the moratorium period suppliers would have saved some money on installation costs. Those suppliers who had previously force fit the majority of PPMs should not be facing compensation now due to their bad practice previously. Force fitting PPMs should not be a tactic used by the energy industry to prevent build up of debt, because the only way this tactic works is by forcing people off supply. People who can afford to top-up their energy meters end up seeing large amounts taken off without choice to pay for the debt. In the UK today, when so many households are struggling to make ends meet, it is not okay to remove an essential service and at the same time remove choice from families already struggling.

Ofgem should do more to encourage suppliers to do more to help customers in these positions. A social tariff in the energy industry, or running a Help to Repay scheme, are both ideas with wide support, but both ideas that have gained little traction from those who would be implementing it. It is the duty of businesses providing essential services to ensure that low income households are not barred from access on account of their incomes.

3. Do you agree that any adjustment should be made using the existing price cap mechanism, rather than a bespoke levy or other new mechanism?

CAP would recommend that Ofgem outwork this policy with least cost possible to the consumer. If a bespoke levy on profits across the sector helped support suppliers with high levels of consumer debt, then CAP would be behind that approach.

4. Do you have any views on whether it would be appropriate to explore a specific levy mechanism for DNI ('do not install') customers? This would be separate to any adjustment for additional debt-related costs.

CAP welcomes the additional protections put in place for more vulnerable customers under the DNI category. Those with certain characteristics are protected from having to self-disconnect due to lack of income, which in turn reduces impact on health, and protects young children from the cold. As costs across the board have risen, suppliers with more DNI customers will in turn be seeing an increase in the amount of debt built up among DNI customers. CAP's research shows that households with children, and households with someone who has a disability or long term health condition, are some of the most squeezed household types. Rather than adding an additional levy, as suggested by suppliers with high numbers of DNI customers, CAP would urge Ofgem to think about additional policies that could support DNI households in affording their usage. For instance, a social tariff.

5. Do you agree that we should make an initial float adjustment in April 2024, followed by a later true-up? Do you agree it should be included within the cap for a 12 month period? Do you agree that this allowance should be temporary only?

Any change to the price cap to allow for unforeseen costs should be temporary, and Ofgem should invest in exploring long term options to ensure that all households are able to afford the essentials. Energy debt is just a symptom of a wider poverty problem in the UK, and CAP would like to see regulators like Ofgem applying pressure to those in Government to be doing more to support low income households across the UK. All households should have the dignity of choice, should not be forced to skip meals or go without heating or lighting in winter because the income they receive cannot cover the cost of essentials.

Furthermore, if Ofgem approaches this policy with a float and true-up approach, there are consequences on customers in terms of budgeting. What if the true-up increases the cost more? For those living on the lowest incomes, any rise in costs, no matter how small, can have a huge impact. Someone over 25 on Universal Credit receives £85 a week, this is designed to cover food, bills, clothing, leisure etc... The energy price cap between October and December 2023 is £1,834, which per week works out to be £35. Energy alone takes up 41% of the standard allowance. With a modest £35 per week budgeted for food, this leaves £15 per week to pay for water, broadband, mobile, TV licence, hygiene products, and socialising. Not to mention for many households the Housing Element of Universal Credit isn't enough to cover the cost of the rent, and people are forced to use their standard allowance towards housing costs too. For those with the least, the pressure of every extra penny is felt. To make matters worse, often those on lower incomes find themselves living in poor housing stock, especially in the private rented sector, which means few gains can be made in terms of energy efficiency.

6. Should the debt-related costs allowance, if introduced for the April 2024 price cap, be subject to a later true-up, and if so, when should this adjustment occur?

CAP understands the pressures faced by suppliers not knowing how the cost of living will continue to impact customers. This same pressure is felt more acutely by households, who are experiencing the tangible reality of not having enough money to live on. There is no guarantee that energy prices and incomes will rebalance in winter 2024/2025, therefore will Ofgem require another price cap hike? Suppliers should look to review their profits, as well as build in efficiency across the board, in order to build a sustainable business model.

7. Do you agree that we should carry out only one wider debt-related costs true-up?

It makes sense to reduce the pressure placed on consumer groups when it comes to a consultation process, so if a true-up consultation is needed, CAP would recommend Ofgem roll this into the additional support credit and debt costs too.

8. Should the float allowance be uprated to account for inflation, or should we make no additional adjustments?

If firms have a cash float to shore up any shortfall this winter, there is no need to adjust for inflation when the inflation figures are not known for this time period.

9. Do you agree with the proposed overarching methodological approach for estimating the existing debt-related costs allowance, and using it to determine whether there has been an over or under-allowance for debt-related costs in 2022/23?

No additional comments provided.

10. Do you have any other suggestions of alternative methodologies or other factors we should consider for how to calculate the debt-related costs over or under-allowance in 2022/23?

No additional comments provided.

11. Do you agree that we should consider each debt-related cost (bad debt, debt administrative costs, and working capital costs) in scope of this review?

No additional comments provided.

12. Which, if any, of the benchmarking options do you favour?

No additional comments provided.

13. Do you have any views on which payment method allocation option would be preferable?

As Ofgem states, those on Prepayment meters are unable to accrue substantial levels of debt and in general those with these types of meters tend to be on a lower income. The risk of increasing the price cap for Prepayment meters is that those who cannot afford energy will simply go without - or any money used to top up the meter would more quickly run out.

To reiterate CAP's previous point, any increase in the price cap is not welcomed. It will push thousands more households further into deprivation, and millions of households are already struggling. In July CAP conducted YouGov polling of over 2,000 UK adults and in the height of summer it was found that 13% of UK adults were going without electricity or gas at least monthly as a result of recent increases in the cost of living. CAP also found that 28% of UK adults are finding keeping up with bills and credit commitments a heavy burden and 9% now have debts that they do not know how they will repay. Any increase in energy prices will impact millions of UK households who are already struggling, and this will have wider consequences - in July 10% of UK adults agreed with the statement 'At times I have felt the increased cost of living has made my life not worth living'.

If Ofgem goes ahead with this price cap increase, it should be sure that the most vulnerable, low income households are protected.

14. Do you agree with us allocating other debt-related costs (debt-related administrative and working capital costs) uniformly across payment method?

CAP would like to see low income households protected, and no additional costs added to Prepayment meter customers especially.

15. How should we apportion any debt-related costs allowance over the unit rate and standing charge elements of the cap only?

As it currently stands, the standing charge already pushes many low income households into debt as it continues to build up even when energy is not used. Therefore, CAP would not want the standing charge to increase. If forced to choose, CAP would want to see those with low usage protected from increased costs, whilst it's not always known why usage is low, many times it is due to rationing supply for cost purposes.

16. How should we apportion any debt-related costs allowance between fuel and meter types?

CAP would suggest Ofgem apportion debt-related costs evenly between fuel types.

About Christians Against Poverty (CAP)

With a vision to see transformed lives, thriving churches and an end to UK poverty, Christians Against Poverty (CAP UK) is a national charity that equips local churches to deliver a range of services.

CAP Debt Help provides holistic support for families and individuals facing problem debt with a free face-to-face service – tackling both financial difficulty and the wider emotional impact. CAP tackles the causes and consequences of UK poverty through free community groups, also run through local churches. This includes Job Clubs, Life Skills groups and the CAP Money course.

All CAP's services are free of charge and available to everyone, regardless of age, gender, faith and background. To find out more, visit capuk.org.

Requests for further information

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