

Response to Ofgem's debt strategy consultations February 2025

Submitted by the Bevan Foundation to Ofgem in response to the following consultations:

Improving debt standards in the domestic retail market
Resetting the energy debt landscape: the case for a debt relief scheme

About the Bevan Foundation

The Bevan Foundation is Wales's most influential think tank. We create insights, ideas and impact that help to end poverty, inequality and injustice in Wales. We are a registered charity and company limited by guarantee, funded by charitable trusts and foundations, donations, and trading as a social enterprise.

Consultation response

The Bevan Foundation agrees with the case for change outlined in the consultation documents and we are in favour of the proposed introduction of a relief scheme to bring down levels of debt in the consumer market.

We do not feel able to comment on the finer details of how such a scheme would work, but we offer some considerations informed by our ongoing involvement in the fuel poverty space in Wales and the work we carried out during 2024 specifically looking at the adequacy of supplier support schemes (*'Help with energy bills: experiences in Wales'*)

The levels of debt and arrears within the energy market are unsustainable and likely to be keeping people in financial hardship or pushing them into further difficulty. With 1.3m people in arrears with no repayment arrangement in place, the average amount of arrears estimated to have reached over £2,000¹, and the total value of this debt steadily increasing, it is clear that the current landscape of hardship support interventions within the market is not sufficient. As the consultation documents acknowledge, many individual accounts' debts have become far too large for it to be likely they will ever be repaid.

There are moral, societal, and market-related reasons for much of this debt to be written off or socialised, and the time to address the problem is long overdue.

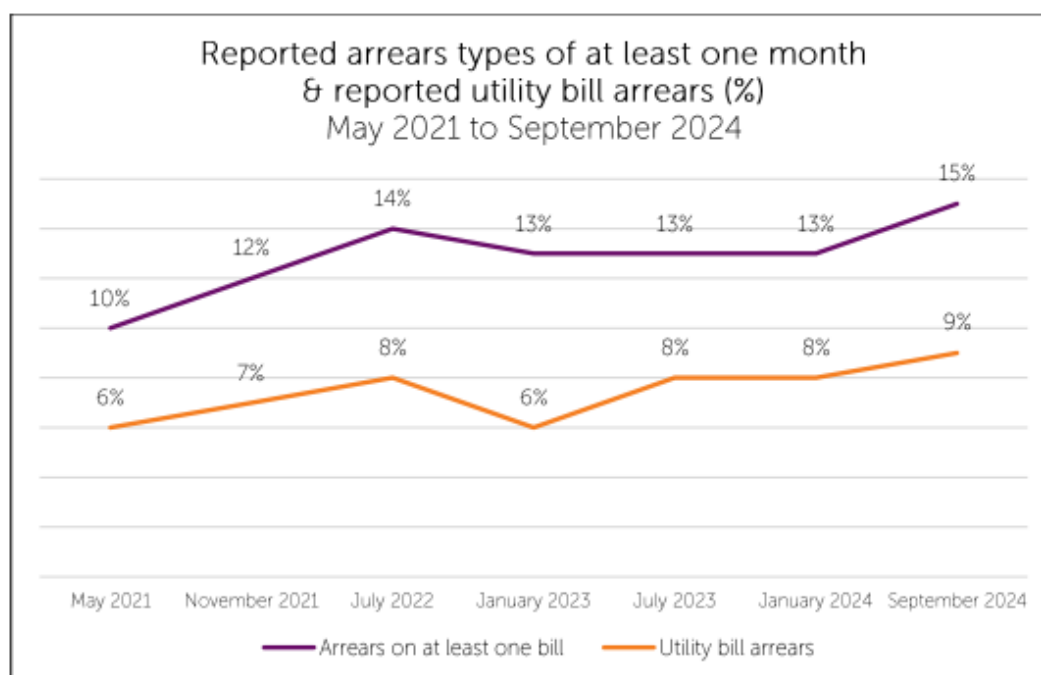
Energy prices are clearly an outsized driver of inflation and the cost-of-living crisis of the past few years. We know from the cost-of-living surveys we commissioned YouGov to carry out on the Welsh adult population that a worrying proportion of people are cutting back on their energy use. One in five people (22 per cent) reported that they had gone without heating due to costs in the three months to September 2024, while close to one in seven (15 per cent) said they had gone without a shower or a bath.² This is despite the

¹ Ofgem, *Resetting the energy debt landscape: the case for a debt relief scheme* (2024). Available at: https://www.ofgem.gov.uk/sites/default/files/2024-12/Resetting_the_energy_debt_landscape_the_case_for_a_debt_relief_scheme.pdf, page 62

² Bevan Foundation, *A snapshot of poverty in autumn 2024* (2024). Available at: <https://www.bevanfoundation.org/resources/a-snapshot-of-poverty-in-autumn-2024/>

reductions in the price cap that were seen over 2024, and these figures are likely to have grown again over the colder months of the year.

Energy debt itself is likely to be worsening the financial hardship being experienced by those on low incomes. Our surveys have shown that despite the price cap having fallen a long way from its peak, the rate at which people report they are behind on utility bills has not fallen as a result. This suggests that many have been pushed into a cycle of negative household budgets, to which it is likely that their indebtedness to their energy supplier(s) is contributing.



Source: Bevan Foundation, [A snapshot of poverty in autumn 2024](#)

We know that the effects of long-term financial hardship and debt are corrosive to people's lives and society and the economy more widely, with consequential costs to public services. Our *Snapshot* cost-of-living survey in Autumn 2024 showed that amongst Universal Credit claimants, seven in ten reported worsened mental health as a result of their financial situation, while over half (52%) reported their physical health had suffered.

We are pleased to note that Ofgem shares our position in its assessment that the scale of the help on offer from suppliers through hardship funds and the WHD industry initiatives falls significantly below the level required to make a significant impact.³ In our August 2024 report, '[Help with energy bills: experiences in Wales](#)', we found that though supplier help is sorely needed, it is often insufficient in value, oversubscribed, poorly advertised, and inconsistent. The feedback we received from a large number of frontline support advisers working across a range of organisations was that they are experiencing huge demand for their help. They are often confused by the intricacies of supplier schemes,

³ Ofgem, *Debt Strategy: A 'reset' and 'reform' for customers in debt* (2024). Available at: https://www.ofgem.gov.uk/sites/default/files/2024-12/Debt_Strategy_%285%29.pdf, page 10

and when they approach suppliers on clients' behalf they are met with unnecessary barriers and inefficient processes.

Many of these energy consumers will have been pushed over a precipice into hardship by the energy crisis and the rapid accrual of debt as a result. While we think suppliers could do more to help, there is clearly a need for a reset both in terms of debt and affordability.

We welcome Ofgem's intention to act to 'break the cycle'⁴—we agree that a debt intervention can only be part of the solution, but we think it is nonetheless necessary while we continue to wait for a wider set of energy market reforms which can only be effected at a UK Government level—including most pressingly some form of social tariff.

We are not in a position to comment on the technical aspects of the scheme's proposals but we would urge that particular attention is paid in its design to the following key observations:

Funding: It is important that any intervention does not cause further financial hardship for low-income UK households through its effect on bills. As the consultation documents note, the effect on bills of *not* intervening with a debt relief scheme may equal the costs of such a scheme because of potential future bad debt allowances within the price cap (assuming no further affordability reforms). However, it is crucial that decisions on the funding for a relief scheme prioritise minimising the impacts on low-income billpayers.

Because of this, we are in favour of the funding for the scheme to be made up as much as possible from voluntary supplier contributions, additional to the hardship schemes they already administer, which are heavily relied upon.

Further, decisions about the funding mechanisms, e.g., the cost recovery period, should be made primarily in the interests of minimising consequent increases on bills, and particularly the bills of those on low incomes already struggling or not far from struggling to make ends meet.

Speed: We agree that such a scheme should be implemented as soon as possible, after giving due consideration to its design, in order to prevent the personal, societal and market-related costs of levels of debt rising further.

Time limit: The consultation document proposes the scheme remains open summer/autumn 2025 to spring 2026. We are concerned that such a time limit on the scheme risks leaving the most hard-to-reach customers losing out on debt relief that they would otherwise be eligible for. While it is important that progress is swift and milestones met, we suggest there may be ways to do this—e.g. via penalties/incentives for suppliers—without an arbitrary closure which risks leaving people in financial hardship without help.

Formal role for consumer groups and charities (CGCs): We think that a formalisation of the role of CGCs is a potentially positive step. However, these organisations cannot be expected to increasingly shoulder the burden of supporting the energy market without seeing support from the market themselves. This should be accounted for in the funding of the scheme.

⁴ Ibid.