

## **Resetting the energy debt landscape: the case for a debt relief scheme**

The Financial Inclusion Team and the Climate, Energy and Green Spaces Team at Leeds City Council in conjunction with Leeds Affordable Warmth Partnership are submitting this combined Leeds response to the case for a debt relief scheme as proposed by OFGEM.

This combined response represents the views, evidence and experiences of a well-established partnership in Leeds who have been working on a co-ordinated, city-wide approach to reducing poverty, tackling inequality and addressing financial inclusion. The organisations include representation from the local authority and its advice partners working directly with low-income residents in Leeds most impacted by poverty and the cost-of-living crisis.

We welcome this opportunity from OFGEM to submit the response to the questions set out below.

### **Q1. Do you agree with our case for change?**

Yes, we do agree with the case for change and the issues outlined within it. However, we do believe longer-term debt relief will be required, beyond the proposals for a short-term debt relief scheme focussing only on debts accrued during the energy crisis. We also believe this will need to be carried out alongside a review of energy prices. Under the current system, there is no competition between suppliers and little to no incentive for suppliers to reduce charges and offer competitive rates.

In Leeds, advice partners report that energy debt remains a significant issue, despite prices falling, and it is still the number one issue debt advice clients are facing, often amongst multiple other debt issues. In the last 3 years, clients seeking advice on energy debt has increased 350% at Citizens Advice Leeds.

Low-income households unable to afford the cost of essentials in normal economic conditions, have been the worst affected by the instability seen since the COVID-19 pandemic, and throughout the Cost-of-Living Crisis. This has led to the emergence of 'deficit budgets' as a primary challenge, where income is lower than outgoings even after all debt and advice solutions are put in place.

The impact of this includes widespread dependence on emergency/short term support, particularly from households unable to change their circumstances.

### **Q2. Should we intervene through the introduction of a debt relief scheme?**

Yes, a debt relief scheme would be useful to write-off customers unsustainable debt and agree with the case made in section 2.16 that existing debts are likely to create ongoing harms without intervention.

However, there are ongoing structural issues with the market which will result in residents falling into debt again, therefore reform of the domestic energy market is still required alongside any one-off debt relief.

In the current climate, the wider debt advice sector have reported that current costs exceed income levels, meaning many debt solutions such as DRO, Bankruptcy etc are unrealistic as debt will continue to be accrued.

### **Q3. Do you agree with the proposed design principles for a debt relief scheme?**

We broadly agree with the design principles suggested by Ofgem. We believe that a further principle should be the sustainability of any benefit to consumers. The consultation mentions the current debt crisis as being largely as a result of the 2022 fuel bill increases, however given the continuing high level of fuel bills compared to before the pandemic and the broader economic outlook continuing to squeeze residents budgets, we believe that it is important to recognise that fuel bill debt is likely to remain an issue into the future and that policy should continue to address that as well.

We also have concerns around how the scheme will be targeted – previously introduced measures i.e vulnerability criteria used to exclude some customers from forced installation of prepayment meters is highly restrictive and many vulnerable customers are not protected under the scheme.

There is also very little consistency in terms of support offered by the energy sector. Advice and support organisations have reported on customers with varying degrees of vulnerability being treated poorly and unfairly by energy suppliers.

Please see this evidenced in the case studies in Appendix 2. The cases are client stories who have received poor service from their energy supplier and received support from the West Yorkshire Energy Affordability Helpline, which is delivered by Citizens Advice Leeds.

### **Q4. Do you agree with our key objectives for a scheme?**

We broadly agree with the objectives of the scheme, in particular reducing levels of domestic debt and arrears. In terms of the second objective of improving the culture of debt management, this may require an ongoing programme of debt relief or alternative market intervention.

### **Q5. What are your views on how we could best reduce the lead time between our proposed policy decision on a scheme and introduction of a scheme, balancing this with robust audit and readiness assurance processes?**

Although we agree with having a comparatively quick timeframe for implementing a debt recovery scheme, we would not necessarily look to reduce the lead time but would welcome opportunity for vulnerable customers with historic debt to have their arrears put ‘on hold’ and action pending until the policy change has been implemented.

Customers who are not eligible for debt write off under a new scheme would still be likely to benefit from improved debt recovery practices and the ‘amnesty’ would also reduce associated debt management costs for suppliers (for processes which are likely to be redundant by 2025).

**Q6. Do you agree our proposals in relation to a scheme time limits for a debt relief scheme?**

We do have concerns over the scheme being time-limited for such a short period and the impact this will have on the advice service as well as its impact on vulnerable customers.

Average national energy bills increased 93% from £1333 in 2021 (pre-energy crisis) to £2577 in 2023). In 2024, energy bills were estimated to have only slightly fallen to £2,252 (69% up on pre-energy crisis levels.) (DESNZ, Quarterly Energy Prices, 2024). In addition, it was recently announced that average household water bills are expected to increase by £124 (January 2025).

Households in low-income, in debt or in negative budgets are continuing to struggle with high costs and on-going energy and utility debts. Therefore, the timescales proposed will mean some households will remain in fuel debt and fuel poverty once the scheme has ended.

Although support to vulnerable customers is welcome, unless the iniquity of standing charges/current tariffs/fees and debt management practices are reviewed and reformed in full alongside a time limited write off period, the issue of customers accruing debt due to unaffordable bills will continue.

Another concern is the pressure this scheme could place on existing advice services and what factors have been considered to manage the volume of energy debt enquiries following such a quick roll out.

A survey of UK independent advice services by Advice UK (October 2024) found 90% reported an increase in demand over the last year, and 55% reporting they are not confident they can meet demand. Furthermore 61% stated they are likely to reduce or cut services within the next year due to financial constraints.

Across accredited debt advice providers in Leeds, there were 392 clients to 1 qualified adviser in 2023-24. Numbers of clients for debt advice have continued to exceed pre-pandemic levels. In 2023-24 there were 5,214 people in Leeds in receipt of debt advice through an accredited independent advice provider. There were 13.3 fully qualified advisers during this time. Client numbers increased 9% on 2022-23.

The Ofgem proposals lay out plans to offer support to 2.3 million debt clients. This would entail processing 12,500 eligibility assessments per day. Which may be possible if it's an automated process based on flat rates. However, when considering targeted support to the most vulnerable households who will need to proactively access support (assuming 30%, as a conservative estimate), that would be 3,750 claims per day to be assessed and processed in a 6-month period.

Assuming that 1 adviser can complete 7 affordability assessments per day (approx 1 per hour), that would require 535 trained advisers to be up and running by Autumn (and this does not include time off on weekends or holidays).

In practice, it is likely to take longer to speak to some of the debt clients, who may have accessibility issues or vulnerabilities, and obtaining evidence, such as proof of income, will take longer.

There would also be challenges in making everyone aware of the scheme, and to come forward for support in a few short months.

**Q7. What are your views on the type and level of support that could be provided by a debt relief scheme?**

Whilst a flat rate would be easier to distribute, the consultation outlines OFGEM's wish to support those experiencing genuine hardship in paying their fuel bills, and it's difficult to see how this could be achieved without a long term, holistic approach which will require the administrative complexities.

Customers are unlikely to have energy debt exclusively and the scheme would need to ensure customers receive comprehensive and holistic debt and income maximisation advice to ensure support measures are appropriate and any advice given is proportionate to circumstances.

To ensure that everyone who needs help receives it, a flat rate of support should be available to everyone, and then further targeted support should be made available for the most vulnerable and in need.

Any level of debt relief needs to be combined with prevention of further debt as soon as one set of arrears are cleared. Implementing a social tariff alongside a debt relief scheme would have a significant impact and provide genuine support to households in fuel poverty.

Some debt relief models that Ofgem could consider adapting to energy debt, and are already well-established and understood by the debt advice sector are:

- Breathing Space – provides customers in debt time to engage with debt advisers and develop repayment plans
- Yorkshire Water's Resolve/Water Support scheme – help customers with debt repayment plans on their water bill if they are on a low income or non-deductible benefits and have arrears over 12 months old.

**Q8. Do you agree that a scheme should be implemented through supplier delivery with Ofgem oversight (Delivery option 1) or through an independent administrator appointed by Ofgem (Delivery option 2)?**

Our overall preference would be Option 2, because Leeds has a well-established independent advice network that could support this scheme. However both options would need to ensure the support delivered is free, quality assured, and delivered consistently.

If option 1 is chosen, there needs to be strong oversight from OFGEM to ensure that customers across different companies receive consistent support. As an example, where the Warm Homes Discount is administered by energy suppliers, we are aware of an ongoing issue

where some residents are denied this due to not having an Energy Performance Certificate. OFGEM will need to ensure that suppliers are not able to implement similar obstacles.

If option 2 and an independent administrator is appointed, it will be important to acknowledge that the UK has a well-established, experienced & highly specialist free debt advice sector, however the industry is underfunded and would welcome support and investment in this area. Debt advice charities are already inundated, so referring potentially millions of new clients to services will require funded and trained staff to meet demand. (see answer to Q6).

**Q9. Do you have any views on the audit options presented?**

We do not have strong views on this.

**Q10. Do you have any views on how the supplier funding claims process should work under audit option 2?**

We do not have any strong views on this.

**Q11. Are there any other considerations for the delivery mechanism for a debt relief scheme we have not explored?**

We do not have any strong views on this.

**Q12. Are there any other financing or administrative considerations for your organisation that we have not considered as part of Chapter 4 or the initial Impact Assessment?**

We do not have any strong views on this.

**Q13. Do you have any views on the funding options presented, considering the balance between the temporary addition to customer bills against period of recovery?**

We believe that the option chosen should be the one with the least negative effect on domestic customers fuel bills overall. This would likely be one that enables the cost of the scheme to be balanced against lower cost caps, resulting from fewer future cases of bad debt over a longer period of time.

The Financial Conduct Authority (FCA)'s Financial Lives Survey revealed the cost of living continues to have an impact on the financial lives of a significant number of adults in the UK. In January 2024:

- 7.4m (14%) felt heavily burdened by their domestic bills and credit commitments
- 5.5m (11%) had missed any of these bills in the previous 6 months
- 14.6m (28%) were not coping financially or finding it difficult to cope
- 5.9m (11%) had no disposable income

A higher proportion of adults in certain groups were struggling financially in January 2024, compared with the UK average. These included:

- adults from low-income households
- unemployed adults
- others not in work such as the long-term sick and full-time carers

- renters
- single adults with financially dependent children
- those living in the North of England and in the most deprived areas of the UK

Insights from the ONS's Cost of Living survey on energy bills revealed in January 2024:

- 44% of adults in Great Britain were using less fuel, such as gas or electricity, in their homes because of the cost of living.
- 49% of adults reported that their cost of living had increased over the last month, 81% of which cited rising gas or electricity bills as a reason for this.
- 19% of adults reported that they were occasionally, hardly ever, or never able to keep comfortably warm in their home because of rising prices.

During the cost-of-living-crisis, UK energy firms have reported substantial profits. In December 2024, the End Fuel Poverty Coalition reported that 20 energy companies have made £483 billion in profits since the start of the crisis.

Further research using Rystad Energy data and reported by Global Witness (October 2024) estimates that oil and gas companies will make £3.2 billion profits in 2024 on production in the UK alone. There are 28 million households in the UK, and this profit could offset £112 of the £149 average annual price increase for each household.

It therefore does not seem reasonable for customers to pay increased prices when suppliers have capacity to reevaluate fairer pricing structures and implement well-structured debt management plans.

**Q14. Do you have any views on reducing supplier funding claims to account for historical debt write off that has been funded via the price cap and supplier contributions?**

We have no strong views on this question.

**Q15. What are your views in relation to the approach which should be taken to account for debt which has already been provided for by historical price cap allowances or provisioned for, for a debt relief scheme's eligible customers?**

We have no strong views on this question.

**Q16. Should debt matching be included in a debt relief scheme?**

Debt matching could be one of a range of options for debt relief, along with social tariffs and write-offs.

We therefore don't object to this being included as an option, so long as it is reserved for customers who can afford it. We recognise that this may enable the scheme to assist more resident.

**Q17. If debt matching is included, what are your views on how we could differentiate eligibility thresholds for debt matching and debt write-off and what would you consider is a reasonable ratio for suppliers to match support to customer payments?**

See above answer.

**Q18. Should networks pay approved debt relief scheme claims to suppliers in winter 2025/26, or only later when networks have received the funding via higher network charges?**

We have no strong views on this.

**Q19. Over how many years should networks recover the cost of a debt relief scheme – for example, 1, 3 or 5 years?**

We would reiterate the points made in our answer to Q13 and believe this should be at a level that results in the minimum price variation for customers as a whole.

**Q20. What are your views on the proposed primary eligibility criteria? We welcome views on our proposals for arm 1 and 2 of the eligibility criteria, considering the options for debt write-off and debt matching.**

We agree with Eligibility arms 1 and 2 as they are likely to cover the majority of residents experiencing debt problems.

**Q21. What are your views on proposals for arm 3 of the primary eligibility criteria (affordability assessment)? We would welcome views on both the feasibility of relying on each data proxy and the suitability of each data proxy to target consumers. We welcome views on eligibility criteria, considering the options for debt write-off and debt matching.**

We believe an affordability test should be an integral part of the eligibility criteria. Using the mix of proxies to assist with targeting and maximising support would be a welcomed element in this proposal. It is not likely to be the speedier option that is preferred; however, we believe the scheme needs to be more long-term, engaging and inclusive in order to improve supplier-consumer relations.

**Q22. What are your views on the proposed application route for eligibility? We welcome views on our proposals for arm 1 and 2 of the eligibility criteria, considering the options for debt write-off and debt matching.**

We believe that this strikes a good balance between automating the process as much as possible, while providing an opportunity for those missed by the automated process to apply for the scheme.

However, the most vulnerable groups and those most in need of this service may not actively engage with the process, and further engagement work and specialist support would likely be required.

**Q23. What are your views on proposals for arm 3 of the application route for eligibility (affordability assessment through a CGC)? We welcome views on eligibility criteria, considering the options for debt write-off and debt matching.**

We don't have any objections to these proposals.



**Q24. Do you agree with our proposals for eligibility in relation to closed customer accounts? What administrative challenges may be faced with these proposals and how can these be overcome?**

We broadly agree with the proposals as they treat debt equally for consumers regardless of whether their debt was accrued with a previous supplier or not.

**Q25. What are your views in relation to the removal of arm 3 of the primary eligibility criteria or the use of indices of deprivation as the affordability assessment? Would you support debt write-off or debt matching for this group?**

Arm 3 and an affordability assessment should remain an integral part of this scheme. The Indices of Deprivation (IoD) being utilised in place of an affordability assessment does raise some concerns. IoD is an area-based indicator and does not consider a person's financial situation. Someone living in a deprived area may not be struggling financially, and would be eligible for support, whereas someone could be in severe hardship and live in a less deprived area and not be eligible for support.

An affordability assessment would be more precise in identifying who cannot afford to repay energy debt and will provide a better indication of whether debt matching or debt write off would be the better solution for the client.

**Q26. Should conditionality be built into the design of a debt relief scheme and, if so, which elements of conditionality should we include?**

Introducing conditionality for customers could introduce too much of a barrier to take-up for a short-term one-off scheme. Such provision would be more suited to ongoing debt relief projects into the future.

Any conditionality into the scheme should not have a detriment to the client. For instance, the proposal to impose smart meters to provide support with debt prevention raises concerns because it has recently been found that smart meters cannot function in certain geographical locations (North of England, Scotland) due to poor signal. This could result in loss of confidence in supplier relationships.

The condition of making payments on an account in the 6 months prior could exclude people who are experiencing issues and trying to get complaints resolved, leaving vulnerable clients, low-income clients unable to access debt relief.

However, we do agree with suppliers being made to conform to the Standard License Conditions on debt management, where suppliers not meeting these standards would be required to fund debt-write-offs for eligible customers, providing an incentive to improve practice within the energy sector.

**Q27. Are there significant data sharing challenges which we should consider in the selection of design options?**

We do not have a response to this question.



## **Appendix 1: Organisations and Stakeholders represented in this response**

The organisations represented in this consultation are

Leeds City Council:

- Climate, Energy and Green Spaces Team
- Financial Inclusion Team
- Cllr David Jenkins – Chair of the Age Friendly Board

Leeds Affordable Warmth Partnership

Financial Inclusion Steering Group

The local advice and support agencies listed below have also supported this response with data, evidence and updates shared locally with the Financial Inclusion Team and are members of the Financial Inclusion Steering Group in Leeds:

- Better Leeds Communities
- Citizens Advice Leeds
- Ebor Gardens Advice Centre
- Groundwork Yorkshire Green Doctor
- Illegal Money Lending Team
- St Vincent's Advice Centre

## **Appendix 2: Case Studies**

### **Case Studies from the West Yorkshire Energy Affordability Helpline provided by Citizens Advice Leeds (2024)**

#### **Case Study 1**

Ms A lives alone in a rented home and is disabled. She contacted us as she needed help to understand her energy bills. We contacted her supplier with her and identified that she has not used heating over the winter and has extremely low electricity usage. We established that she had essentially self-disconnected as she was worried about energy costs after seeing the publicity about increasing costs so had stopped using heating and electricity. Self-disconnection has the potential to have a serious impact on health.

We arranged for meter reader visits as Ms A cannot read her meters and smart meters cannot be installed. Hopefully more regular and accurate bills will help her to become more confident about managing her energy usage. We established that she is actually £200 in credit for energy. Ms A was also given a further appointment to discuss debt and budgeting advice as we established that she was paying non-priority debts ahead of using energy.

We gave further advice on energy costs and hopefully this will encourage her to use heating when required in the future. We also made a referral to the Green Doctor and ensured that she was on the Priority Services Register. We also established that there were housing repair issues and therefore provided information in relation to this.

## **Case Study 2**

Mr & Mrs B are pensioners who own their home outright, they both have long term health issues. They called us as they wanted help to complain to their supplier regarding problems that they have been having with their Smart meter. We assisted them with a complaint letter. We also completed a full benefit check, we looked at other income maximisation, made a referral to Green Dr and Priority Services Register. The complaint is ongoing and we continue to assist. We established that there were three benefits that they were entitled to but not claiming. We helped them to claim these benefits which increased their income by £2179.32 a year. Therefore, although initially Mr & Mrs B only called for help to complain to their supplier, because we offer a benefits check (as we understand the importance of income maximisation), we were able to increase their weekly income at the same time as helping with the complaint.

## **Case Study 3**

Mrs C is 41 and owns her property. She has a chronic and highly variable long term health condition. She called us as she wanted help with energy arrears, however through exploration it became clear that ongoing affordability was the root issue. We explored income maximisation fully (including eligibility for PIP and funding for furniture (ongoing)). We also referred Mrs C to the Green Dr (including a referral for Heating on Prescription). We examined the energy efficiency of the property and gave practical advice on energy efficiency measures which eliminated potential metering issues. We also gave full advice on the current energy market. We engaged with the supplier on Mrs C's behalf and sent a Standard Financial Statement showing affordability to them. As a result the supplier offered to meet 50% of the client's ongoing energy costs.

## **Case Study 4**

Ms D is a single female who lives in a Housing Association property. She suffers from multiple physical conditions. She works part time and receives UC. Ms D received a letter threatening to obtain a warrant to install and fit a Prepayment meter within 7 days because of her arrears. Ms D was confused as we had assisted her in setting up a payment plan 2 months earlier, which her supplier had confirmed. We wrote a complaint to her supplier, and called them. Ms D stated that she had lost faith in her supplier and felt that she could not speak to them directly.

The supplier confirmed that they had received payments from Ms D but in April she had only made a payment for her usage only. We explained that we had been in negotiation with them and had set up a payment plan in mid April, with the first payment to be made in May. Hence the reason why she had only paid for her usage in April. We informed the supplier that Ms D has stuck to the plan.

The supplier stated that their collections team had moved systems and the payment plan was not uploaded onto the new system. They apologised and confirmed the new payment plan. Installation of the Prepayment meter was cancelled much to Ms D's relief.

### **Case Study 5**

Mr E is 54 years old, single and lives in housing association accommodation. He called the team as he needed help to redeem an Energy Bills Support Scheme voucher. During the exploration he disclosed that he has a very low income of working tax credits only as he is not currently making any money from his self employment.

We advised on maximising benefit income, social tariffs that should reduce his expenditure and sources of self-employment support. Thanks to our advice Mr E should be considerably better off with a Universal Credit claim which may also open up other savings for him. Although Mr E only called to get help to redeem a voucher, due to the Team's thorough exploration he has been given advice that should give him a better long term income.

### **Case Study 6**

Miss F is a single female that lives in 1 bed private rented property. She has mental health issues. She is currently working full time. She has debts which she is working through. She called the team due to ongoing issues with her meter and as a result had received a large bill from her supplier. The outstanding arrears were just less than £3000 to which she was not making any payments towards and could not afford the repayments via direct debit.

To help assist her with understanding how this had happened, we obtained bills from Miss F and after reviewing the same we noticed that the billing address was incorrect in that there was confusion between a flat number and a house number.

A call was made to the supplier who stated that they may not be supplying her flat as they were unable to locate an account or meter. Miss F was not able to find a serial number and the supplier and letting agent were unwilling to help. The adviser therefore raised a complaint. No response was received. Therefore the adviser assisted Miss F to escalate the complaint to the Energy Ombudsman. In addition to this, we advised her to place a formal complaint with the Property Housing Redress Scheme against the letting agent for not being cooperative over the metering issue.

The Energy Ombudsman stated as part of the investigation Miss F had been billed for the incorrect property. They had made a requirement for the supplier to arrange a site visit with an engineer, at no cost to Miss F. It was noted that they would then need to rebill the account in line with the engineers' report and apply the back billing principles by removing previously unsought charges raised 12 months prior to the date of the amended bill. They also made a request to have any defaults removed from her credit file and they provide a £175 goodwill gesture, along with a written apology. Miss F was very happy with the outcome and thanked CAL for all the assistance provided.