

September 2002

**Preventing debt and disconnection
Good practice guidelines developed
by energywatch and Ofgem**

Executive summary

This document describes a joint project between energywatch and Ofgem to identify good practice in the prevention of debt and disconnection, and the management of debt recovery. energywatch and Ofgem set up an Advisory Group, consisting of suppliers, consumer groups and government, to assist the project. A particular focus has been on the needs of low-income consumers, who may be in fuel poverty.

The project identifies a range of good practice and other areas where we believe greater efforts are needed. energywatch and Ofgem invite suppliers to develop individual strategies, focusing on the following six key areas:

Minimising billing errors

Complaints to energywatch and Citizens Advice Bureaux suggest issues surrounding regularity, certainty and accuracy of billing are a big problem, both generally and following transfer. This can create considerable difficulties for people on low incomes who are usually on tight budgets. The minimisation of billing errors will make a significant difference and be a major step towards debt prevention.

Using incoming calls to identify consumers who would benefit from energy efficiency advice or other assistance

Suppliers' main contact with their consumers is usually by telephone. Improved communication and awareness of potential debt problems by front line staff could prove invaluable in identifying those consumers that would most benefit from energy efficiency advice, inclusion on the Priority Service Register and - for consumers in extreme difficulties - a far broader approach to their problems.

Using consumer records to target energy efficiency

Suppliers will usually have extensive records relating to a consumer's consumption and payment history. It is in suppliers' interests to make more effective use of these records to target consumers with energy efficiency advice and measures.

Demonstrating flexibility in debt recovery

The research undertaken for the Social Action Plan by Powergen suggests that suppliers should be more pro-active in offering help to consumers in debt. Among

the main areas identified for improvement were a more understanding attitude, more efficient resolution of problems and a more flexible attitude to resolving debt.

Working with others to offer sustainable solutions to consumers in difficulties

Suppliers will have a small number of consumers for whom a wider approach that includes a package of measures is necessary in order to help them achieve sustainable solutions to their debt problems. Research projects carried out by Powergen under the Social Action Plan and the Centre for Utility Consumer Law both stressed the need for suppliers to encourage consumers with multiple debts to seek help from independent advice agencies.

Helping consumers who are unable to manage their affairs

There are a small number of consumers for whom managing their affairs is very difficult, perhaps due to chronic illness, old age or mental or physical disability. If not handled with care, these consumers can get into repeated payment difficulties. Suppliers should therefore have arrangements in place to help such consumers.

It is believed that the pursuit of good practice in these areas should bring benefits to consumers and suppliers. Both should benefit from lower levels of debt and disconnection and a reduction in the problems caused by billing errors. Consumers struggling to pay should benefit from a more proactive approach to the energy efficiency of their homes and a more flexible approach to their circumstances, with those in severe difficulties being provided with more specialist help.

With this in mind, Ofgem and energywatch have identified six indicators and key deliverables to help us assess progress in two years time.

The document invites comments on the issues identified. Following consideration of views, energywatch and Ofgem will publish good practice guidelines for the benefit of suppliers, consumers and their representatives. We will invite companies to consider how their existing programmes can be improved. Progress will be monitored, and the results published.

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1. Introduction

Purpose of this document

- 1.1 This document proposes a set of good practice guidelines for electricity and gas suppliers that are designed to prevent the build up of debt and the occurrence of disconnection, and improve the management of debt recovery.
- 1.2 energywatch and Ofgem have joined together on this project, having both identified debt prevention as a key activity for 2002/2003. The objectives are to:
 - ◆ identify good practice in the prevention of debt and disconnection, and the management of debt recovery, following consultation with a wide range of interested parties
 - ◆ develop, and publish for the benefit of suppliers, consumers and their representatives, guidelines describing good practice
 - ◆ establish suitable criteria for monitoring and reporting on industry performance following the introduction of new guidelines
- 1.3 To aid the development of the guidelines, energywatch and Ofgem set up an Advisory Group, consisting of suppliers, consumer groups and Government. This Advisory Group is chaired by Peter Lehmann who is the chairman of the Fuel Poverty Advisory Group and the Energy Saving Trust.
- 1.4 From the outset of this project, it has been apparent that there are already a number of innovative ideas and schemes relating to fuel debt being practised by suppliers. The guidelines contained in this consultation document are examples of what energywatch and Ofgem regard as good practice. They are not meant to be, and should not be regarded as, a checklist of obligations for suppliers to tick off as being followed. Neither are they meant to be wholly inclusive or to stifle innovation. energywatch and Ofgem invite suppliers to develop their own individual debt prevention strategies that address the areas we have identified, in ways that deliver tangible and transparent benefits for consumers.

- 1.5 It is acknowledged that all customers benefit from robust policies that are aimed at those who manipulate the system of paying for their energy usage. However, the good practice explored by energywatch and Ofgem, with the help of the Advisory Group, focuses on the positive steps that suppliers can take to prevent the build up of debt and provide greater help to vulnerable consumers and others who have genuine difficulty in paying their bills.

Background

- 1.6 It is estimated that approximately 1.4 million gas consumers (7 per cent) and 0.9 million electricity consumers (4 per cent) are repaying a debt over an extended period (more than 13 weeks)¹. Research suggests that consumers in such long-term debt are likely to be on low incomes. Being in debt can lead to additional problems such as:

- ◆ disconnection
- ◆ the use of prepayment meters, which are generally more expensive
- ◆ rationing usage, which for prepayment meter consumers can result in self-disconnection
- ◆ inability to save money through switching supplier due to debt-blocking.

- 1.7 Among the aims of energywatch's forward work plan for 2002/2003 is to campaign for the eradication of fuel poverty, the establishment of a right to fuel and the delivery of real benefits for low-income consumers. energywatch identified debt prevention as a key activity under these aims. Ofgem identified debt prevention and improved dialogue between suppliers and consumers as one of the priorities of its Social Action Plan in March 2000. In the 2002/2003 Corporate Plan Ofgem undertook to work with energywatch to develop guidelines.

Ofgem's Social Action Plan

- 1.8 Under the Social Action Plan, Ofgem has already undertaken a number of work strands designed to help consumers in debt and focus suppliers on prevention. These are:

- ◆ new Codes of Practice obligations
- ◆ improved monitoring of performance
- ◆ research² to inform policy making
- ◆ work on reducing the barriers of debt blocking
- ◆ working group to examine the operation of fuel direct

1.9 A summary of relevant work undertaken under the Social Action Plan can be found at appendix 2. The current guidance provided to electricity and gas suppliers on what should be included in Codes of Practice is available on the Ofgem website at http://www.ofgem.gov.uk/docs2001/61_suppliers.pdf.

Advisory Group

1.10 energywatch and Ofgem have set up an Advisory Group to assist with the development of the guidelines. This is chaired by Peter Lehmann, Chairman of the Energy Saving Trust and the Government's Fuel Poverty Advisory Group. Relevant agencies, fuel suppliers, and DTI are represented on the Group. Suppliers represented on the Group have reported their practices and experiences in a number of areas. The Group has also received valuable input from the National Association of Citizens' Advice Bureaux. The terms of reference were to advise energywatch and Ofgem on the following:

- ◆ the proposed process for consultation
- ◆ the development of guidelines
- ◆ the scope of the guidelines
- ◆ what constitutes good and bad practice.

1.11 The Advisory Group has met five times and intends to meet once more before the final guidelines are published. energywatch and Ofgem are very grateful to all the members (see appendix 3) and in particular to Peter Lehmann for chairing the Group.

¹ based on figures provided by suppliers for the quarter ending June 2002

² Scope for Better Prevention and Management of Debt, Powergen/Ofgem – February 2001

Structure of the document

1.12 The layout of the document is as follows:

- ◆ Section 2 explains the main issues considered by the Advisory Group
- ◆ Section 3 outlines the rationale for action in the six areas identified and describes existing good practice
- ◆ Section 4 sets out the guidelines that energywatch and Ofgem regard as good practice
- ◆ Section 5 describes how energywatch and Ofgem will measure progress and sets out the timetable for development of strategies.

Views invited

1.13 energywatch and Ofgem invite views on the proposals set out in this document. In particular, on the following:

- ◆ the examples of good practice identified in Section 3
- ◆ the guidelines set out in Section 4
- ◆ the arrangements for monitoring and timetable outlined in Section 5.

1.14 In addition, we should be grateful if suppliers would provide details of their current practices in the areas identified and any initiatives designed to prevent debt or help consumers in debt.

1.15 Please respond by 6 November 2002 to:

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1.16 All responses will normally be published on the energywatch and Ofgem websites and held electronically, unless there are good reasons why they must remain confidential. Consultees should try to put any confidential

material to appendices in their responses. energywatch and Ofgem would prefer to receive responses in an electronic form so they can easily be placed on the respective websites.

2. Issues examined by the Advisory Group

2.1 The Advisory Group has played an important role in helping energywatch and Ofgem to identify good practice and develop guidelines. In pursuit of this role, it considered evidence from consumer agencies and suppliers and the results of research carried out under the Social Action Plan. It also discussed other issues such as the link between fuel poverty, low-income and debt, and the role for trust funds, such as those operating in the water industry, in helping consumers in hardship.

2.2 The main issues considered by the Advisory Group are set out below.

Consumer complaints and enquiries made to energywatch

2.3 As a first step to identify the magnitude of the problem of fuel debt, energywatch looked at the complaints data it held on the two complaints databases it had inherited from the Gas Consumers Council (GCC) for gas and Ofgem in respect of electricity.

2.4 These showed that complaints specifically about debt were currently running at a little over 6% of the total number of gas and electricity complaints made to energywatch. There was no appreciable trend showing this as diminishing or rising. However, billing complaints accounted for 50% of all complaints made to energywatch. It was suggested that more often than not complaints were being recorded against the category that most closely identified the root cause rather than the consequence or symptom of the complaint, ie recorded as a billing error, though it consequently was the cause of a debt accruing.

2.5 The complaint-handling offices were asked to provide more information and the feedback received was consistent throughout that debt was a greater problem than statistically shown.

2.6 Information drawn from the energywatch national and regional offices identified a common range of problems faced by consumers. This information also acted as a starting point in highlighting existing problems across the industry. The core themes arising from the one million-plus telephone calls and seven hundred and fifty thousand items of correspondence that energywatch received in its first full year indicated that:

- ◆ there is a widespread consumer view that responsibility for a debt arising does not always lie with the consumer
- ◆ companies' approach to consumers in debt is reactive, with over-reliance upon the installation of prepayment meters as a fall-back, rather than taking steps to prevent debt from arising at all
- ◆ billing issues, including the over-use of estimated meter reads, a failure to use consumer provided reads and to set/amend direct debit arrangements in a timely manner, are an important cause of debt
- ◆ there is an inconsistency of approach by suppliers, some of whom have rigid policies that do not take into account a consumer's ability to pay.

Consumer workshops

- 2.7 Three workshops were arranged by energywatch in Cardiff, Southampton and Glasgow during January 2002. All were well attended by representatives from consumer and money advice groups, local authorities, trading standards departments, credit unions and debt-advice charities.
- 2.8 The workshops considered energy debt in the broadest sense, its causes and impact upon consumers. The overriding view was that too often there was a lack of understanding by suppliers of the distinction between those who "can't pay" and those who "won't pay". The other most significant or common themes from the workshops were:
- ◆ a perception that suppliers held much valuable data about their consumers, but that this data was not being utilised effectively
 - ◆ a perception that there was a lack of public awareness about the benefits of energy efficiency in general and grants that were available
 - ◆ a clear view that poor billing practices, especially bills based upon estimated reads or inaccurate or delayed meter readings following a switch of supplier, was a significant cause of sudden financial difficulty
 - ◆ agreement that direct debits, being reviewed annually, could result in an unexpected 'debt', and that, where such reviews were based upon

estimated readings, these could be grossly misleading thus perpetuating and compounding the 'debt' situation

- ◆ praise for the way in which some suppliers dealt with consumers in debt, but a feeling that often the debt was not picked up early enough, allowing the consumer to get further into debt
- ◆ an observation that suppliers rely on standard letters as a means of communicating with consumers, which were either ignored or ineffective in drawing to the consumer's attention the need to contact their supplier
- ◆ that a consumer in debt to their energy supplier often had other debts that needed to be taken into consideration in determining ability to pay and that referral to an independent money advice agency, often the most appropriate course of action, was usually overlooked
- ◆ consumers who were especially vulnerable, such as those with special needs, were not being recognised by suppliers and given appropriate help.

Supplier initiatives and debt recovery processes

2.9 In developing the guidelines, energywatch and Ofgem have sought advice from suppliers on the Advisory Group about their debt processes and any initiatives designed to prevent debt or help consumers in debt. In particular, energywatch and Ofgem have concentrated on the following areas:

- ◆ how consumers at risk can be identified and targeted
- ◆ information and training available to frontline staff
- ◆ how consumers can be segmented according to their payment history
- ◆ the speed of response to debt queries and the handling of calls by specialist teams
- ◆ the flexibility of response to debt problems
- ◆ referrals to external bodies.

- 2.10 Ofgem, energywatch and the Chairman of the Advisory Group visited two companies to look at their current processes. These visits and the feedback from other suppliers on the group have been helpful in establishing current practice and testing the feasibility of ideas.

Powergen research into the scope for better prevention and management of debt

- 2.11 Under the Social Action Plan, Diagnostics Social and Market Research Ltd undertook research for Powergen to increase understanding of consumers in debt and explore ways of managing debt problems more effectively. In particular, they considered: how to encourage early contact between consumer and supplier; the role consumption information plays in reducing debt build up; the appeal of energy efficiency programs; and the level, type and tone of advice needed to assist consumers in managing repayment of debt.

- 2.12 Powergen published its report in February 2001. The main recommendations for suppliers were that they should:

- ◆ encourage dialogue on debt by promoting a willingness to listen and help and providing reassurance that consumers will receive a sympathetic hearing
- ◆ help consumers arrive at realistic payment solutions, demonstrating understanding of individual circumstances and flexibility in respect of payment amounts, ensuring that customers understand and agree a level of regular payments which are not beyond their means
- ◆ encourage consumers in multiple debt to seek help from independent money advice centres
- ◆ raise awareness of funded programmes such as HEES and EESoP
- ◆ target advice about reducing usage at consumers in long-term debt and vulnerable customers such as those on the Priority Service Register
- ◆ recognise that consumers like prepayment and seek to develop methods that build upon the benefits of prepayment methods

- ◆ improve service to consumers by having a freephone number, answering calls quickly, taking regular and accurate meter readings to avoid consecutive estimates and irregular billing, and avoiding delays in billing following change of supplier.

Recently published research

- 2.13 Two other reports have recently been published which have an important bearing on the project.

Research into the quality of energy efficiency advice provided by gas and electricity suppliers

- 2.14 This research, undertaken for Ofgem by New Perspectives and Taylor Nelson Sofres, used a panel of “mystery shoppers” to make a series of telephone calls to suppliers’ general call centres and specialist energy efficiency advice helplines seeking advice on a range of problems³. To gain a further dimension, telephone interviews were also conducted with consumers who had recently received advice from their suppliers.

- 2.15 The results of the research indicate that standards vary widely between suppliers. Among the findings of the study were that:

- ◆ fewer than half the callers to general call centres with energy efficiency problems were recognised as such and immediately referred for advice and another quarter got inadequate advice before eventually being referred. Call handlers therefore need to be trained to recognise energy efficiency needs, and to know when and where to refer callers
- ◆ although the performance of some specialist helplines was good, a number failed to ask questions to identify the fuel poor or those eligible for grants. Too little advice was given on specific measures to install and verbal advice was not always adequately followed up with printed information, particularly in respect of grants.

- 2.16 Ofgem is following the report up with companies individually, and will ensure that improvements are made. The first finding highlighted above, concerning

call centre performance, is addressed in this report. Ofgem intends to publish separate guidelines relating to the performance of energy efficiency advice lines.

NACAB Report on CAB clients' experience of dealing with fuel suppliers

- 2.17 The Advisory Group also considered a second report, "The Fuel Picture"⁴, which has been published by the National Association of Citizens Advice Bureau (NACAB). This report is based on over 3400 individual case reports submitted to NACAB by Citizens Advice Bureaux (CABx) over a two-year period, describing the experience of CAB clients. The report makes a number of recommendations outside the scope of this document, concerning marketing by gas and electricity suppliers, but also includes recommendations concerning consumers in payment difficulties.
- 2.18 The report highlights the following issues that are pertinent to this document and reinforce the anecdotal evidence received through consumer complaints to energywatch and the feedback from the workshops, namely that:
- ◆ of the study sample, 35 per cent involved billing and payment method problems of which many were stated to be as a result of either a planned or unwanted switch of supplier. NACAB drew attention to the disruption caused to consumers' household budgeting, especially in the case of the vulnerable
 - ◆ issues surrounding regularity, certainty and accuracy of billing (eg no bills received, estimated bills over a long period, the ignoring of actual readings taken by meter reader or consumer, or poor presentation of account information) are an ongoing problem, both generally and following transfer, that do nothing to assist consumers with budgeting, particularly those on low incomes
 - ◆ problems with payment methods, including the installation of pre-payment meters against consumers' wishes and disconnection as a result of faulty cards or payment systems, have been compounded by delays in sorting out the matter and the poor quality of information about the status of pre-payment meter accounts. Sudden demands

³ Report on the quality of energy efficiency advice provided by gas and electricity suppliers, Research study conducted for Ofgem by New Perspectives with Taylor Nelson Sofres – June 2002

for more money, or even a large repayment, do not assist those trying to budget on a low income

- ◆ consumers are not always treated fairly when in direct negotiation with their supplier and as a consequence are being asked to meet a recovery rate that is set too high and does not take into account their ability to pay. NACAB also refer to some cases of oppressive or abusive practices by debt collection agencies
- ◆ consumers with problems report difficulties in trying to talk to somebody who can help. This and the use of automated telephone systems are cited as barriers to the speedy resolution of complaints, especially for the more vulnerable consumer.

2.19 The NACAB report concludes and recommends:

“CAB clients’ primary concerns are to be able to pay for the service they require in a manner and at a rate that they can afford, and to avoid debt or disconnection. When things go wrong they want to be able to communicate directly with someone who will listen and take responsibility for resolving their problem without undue delay. If financial difficulties arise they require an appropriate and proportionate response from the fuel supplier and protection from disconnection. But often this seems to be out of their reach.”

2.20 Although it is recognised that CAB clients account for a very small proportion of consumers, it is clear from the report that there are a number of areas where suppliers’ practices are causing significant difficulties. The guidelines described in this document take account of the concerns and recommendations contained in the NACAB report, although some of the recommendations, for example concerning the transfer process, fall outside the scope of this document and will be considered separately by Ofgem.

Fuel poverty, low-income and fuel debt

2.21 The Advisory Group investigated the extent to which a link exists between low-income and fuel debt, and between low income and fuel poverty, considering the following factors:

⁴ The Fuel Picture, CAB clients’ experience of dealing with fuel suppliers – June 2002

- ◆ according to MORI research for Ofgem, 62% of consumers either in debt or struggling to pay are in receipt of income-related benefit
- ◆ research carried out for the Electricity Association⁵ found that households with unemployed members, those with children, consumers in receipt of income related benefits and those with low incomes have a higher than average chance of being in arrears
- ◆ respondents to the Powergen research were split into three categories; 'low income earners', 'older unemployed' and 'carers', with median net weekly household incomes of £252, £125 and £100 respectively. The 'older unemployed' (median net income £125) and 'carers' (median net income £100) made up a majority of consumers in debt. These consumers were likely to lead lives characterised by long term debt and poverty, with three-quarters in receipt of income-related benefits.

2.22 While these factors suggest that most consumers in debt have low incomes, this does not establish the extent of any direct link between fuel poverty and fuel debt. There is good evidence to suggest that the link between fuel debt and fuel poverty is weak because of the high proportion of pensioner households in fuel poverty. Pensioners represent approximately 57% of households in fuel poverty, but only 6% of those who report a difficulty in paying or being in debt⁶.

2.23 Warwick University was asked to examine the datasets from the research to establish the likelihood of consumers in debt being in fuel poverty, based on the information in the survey. Their analysis suggests that approximately a quarter (23%) of consumers repaying a debt through a prepayment meter were likely to be in fuel poverty. The results are not exhaustive. They refer only to consumers who are repaying a debt through a prepayment meter, and since the information on income is based on income ranges, the fuel poverty measure is based on the middle level of income within the range.

⁵ Affording Gas and Electricity, Research by the Centre for Management under Regulation at Warwick Business School and the Centre for Competition and Regulation at the University of East Anglia – March 2001.

⁶ Experience of the competitive domestic electricity and gas markets, Research study conducted for Ofgem by MORI – November 2001 72/01

2.24 The Working Group have considered the implications of the above factors carefully, and have drawn the following conclusions:

- ◆ most customers in debt or struggling to pay are likely to be on low incomes and should be handled accordingly.
- ◆ while the majority of consumers in debt are not fuel poor, good debt prevention strategies, including the promotion of energy efficiency, should contribute both to the reduction and avoidance of fuel poverty.

Role of Trust Funds

2.25 The Working Group looked at the role of Trust Funds in the water industry. Their role is to administer a grants programme aimed at reducing water and sewerage debt for consumers experiencing poverty and hardship and to provide a sustainable package of assistance to improve consumers' financial stability.

2.26 Some electricity and gas companies are currently examining the feasibility of setting up a 'Utility Trust' to support electricity and gas consumers in extreme hardship.

2.27 The Advisory Group invited Anglian Water Trust Fund (AWTF) to outline the role of Trust Funds. The group was told that the strategic aim of the AWTF is to make a sustainable difference to the financial stability of those it sought to help, through:

- ◆ the provision of grants to families in need, including taking into account non-water/sewerage related debts and making quality of life payments
- ◆ the provision of grants to money advice agencies to provide skilled advice, to prevent people sliding back into debt and as a means of access to AWTF
- ◆ facilitating debt prevention work, especially for the most vulnerable groups
- ◆ networking with similar trust funds and ensuring consistency of practice

- ◆ looking forward, to providing greater assistance to those with mental health problems.

2.28 Between 1996 and 2001, 35,000 people had directly benefited from AWTF awards, and in excess of £100 million worth of indebtedness had been addressed. Evidence suggests that approximately 8 out of 10 consumers that have received a grant from AWTF are now either in credit or making payments, whereas prior to the grant they had not been doing so.

2.29 It appears that Trust Funds may be able to play an important role in providing sustainable solutions to consumers in extreme hardship. AWTF is a good example of one of the most successful, but there are also several others, for example the Seven Trent Trust Fund. However, some suppliers may prefer to make their own, in-house arrangements for assisting such consumers.

3. Good practice in debt prevention

3.1 This section provides examples of existing good practice and proposed new initiatives under the following six areas:

- ◆ Minimising billing errors
- ◆ Using incoming calls to identify consumers who would benefit from energy efficiency advice or other assistance
- ◆ Using consumer records to target energy efficiency
- ◆ Demonstrating flexibility in debt recovery
- ◆ Offering sustainable solutions to consumers in difficulties
- ◆ Helping consumers who are unable to manage their own affairs.

3.2 The arguments and evidence set out below have been used to inform the proposed guidelines in section 4.

Minimising billing errors

3.3 NACAB's report into the experience of CAB clients demonstrates the consequences of persistent billing problems, including those caused by estimated bills, an absence of bills, or other errors, such as ignoring readings taken by meter readers or customers. Evidence provided by energywatch suggests that billing problems can lead to subsequent debt problems. It is therefore important to minimise the extent to which supplier error causes debt or exacerbates payment problems. Proposals for how this could be done are set out below.

Providing accurate bills based on actual meter readings

3.4 Some of the most frequently reported problems are those that relate to inaccurate estimated bills or a lack of meter readings. The absence of bills is a further problem that can lead to the build-up of debt.

3.5 Some suppliers have made efforts to minimise such problems by setting internal targets relating to the proportion of bills based on actual meter readings (i.e. company or customer own reads). Our understanding is that

the best performers in this area achieve a success rate of between 80 per cent and 90 per cent each quarter. Achievement of the target may be through a combination of approaches including incentives for customers to provide their own readings, or more demanding service level agreements with meter reading companies.

- 3.6 More specifically, good practice may mean that where a meter cannot be read on the first visit, the meter reader leaves a card with details of when they will return or, if it is a second visit, clear instructions on how a consumer can provide their own reading, ideally by contacting a freephone number.
- 3.7 energywatch and Ofgem support such initiatives and would like to see all suppliers making efforts to maximise the proportion of bills based on actual readings. It is proposed that all suppliers set internal targets relating to the proportion of bills based on actual readings. Good practice would be for such targets to be in the region of 80 per cent to 90 per cent.
- 3.8 CABx report that suppliers occasionally ignore readings submitted by consumers (and sometimes meter readers). Unless there is a discrepancy, a consumer read should not be rejected simply because it falls outside the billing window. Where the read suggests an anomaly with the pattern of past usage, the supplier should investigate the matter immediately and contact the consumer to discuss this.
- 3.9 Where bills have to be estimated, it is good practice to distinguish them clearly from bills generated by actual readings. If the estimate is the second or third in a row, the bill should include stronger warnings to the consumer about the need to check them. Most suppliers will health-check estimated bills for accuracy against past consumption history to establish that they fall within defined accuracy limits. This is considered good practice.
- 3.10 Although suppliers are obliged by Licence Condition to carry out a check of the meter at least once every 2 years (where they have at all times during the period been the supplier), they are encouraged to make every effort to obtain an actual meter reading at least once a year in respect of consumers most at risk of debt. This might include ex prepayment consumers now on a credit meter, those on Fuel Direct or consumers making frequent cash payment, in particularly where they have a history of debt. It is acknowledged that it may be difficult to distinguish such consumers from others for meter reading

purposes, but suppliers are encouraged to think about how this can be achieved.

- 3.11 As with estimated bills, the problems of receiving no bills at all can lead to the build up of arrears, which can cause major difficulties in budgeting for people on low incomes. Evidence from CABx suggests that this problem usually arises following supplier errors when dealing with consumers who move address or change payment method. It can also occur when changing supplier. Good practice is therefore to bill consumers at regular intervals. This will be quarterly, unless otherwise specified in the contract.

Problems following change of supplier

- 3.12 The majority of complaints to CABx concerning billing problems occur as a result of customers changing supplier. Sometimes these are linked to the selling process, but they are often the result of administrative errors or a lack of co-ordination between suppliers after a customer has asked to be transferred. energywatch and Ofgem have worked together on another process dealing with the consequences of erroneous transfers and Ofgem will consider separately any lessons for the transfer process itself. Therefore, it is not appropriate for issues relating to the transfer process to be considered in this report. However, when developing guidelines on debt prevention, it is appropriate to consider the problems such as those faced by CAB clients on low-incomes receiving unexpectedly large bills after transfer.
- 3.13 Two particular problems concern either a failure to bill by the new supplier or errors leading to two bills being sent, one by the old and one by the new supplier. Both scenarios can lead to a build up of debt.
- 3.14 Obtaining an actual meter reading on change of supplier is particularly important to enable the smooth transfer of the consumer. Following from this, it is equally important that new consumers receive an early bill based on an actual reading. Good practice would be for suppliers to ensure that they provide a bill based on an actual reading within 6 months of transfer.
- 3.15 energywatch complaints, NACAB findings and feedback from the workshops suggest that consumers can fall into problems due to direct debit payments being set too low following the change of supplier. Where a new consumer's consumption history is not available, good practice is to ask the consumer to

provide it, or set the direct debit level at an initial amount that is genuinely regarded as being adequate to cover usage. A review should be conducted as soon as a sufficient history has accrued so that the direct debit can be adjusted if necessary.

Redress for supplier error

3.16 The extent to which suppliers currently offer redress to consumers who fall into debt due to supplier error varies. energywatch and Ofgem believe that in situations where the supplier has clearly been 'in error', good practice would be to provide means of redress (financial or otherwise) and for such arrangements to be automatic, with details set out in Codes of Practice. Examples of when redress might be appropriate are shown below:

- (a) where the supplier has not billed for over 6 months (unless agreed under the contract)
- (b) where the supplier has not made reasonable endeavours to read the meter for over 2 years
- (c) where the supplier has ignored a reading provided by either a meter reader or the consumer, or
- (d) where the supplier has set up a repayment arrangement without taking into account a consumer's ability to pay.

3.17 The type of redress will probably depend on the gravity of the error, its impact on the consumer and their circumstances. Examples of the types of redress that suppliers should consider are included in the guidelines in Section 4.

Using incoming calls to identify consumers that would benefit from energy efficiency advice or other assistance

3.18 Suppliers have a significant amount of telephone contact with consumers. However, the mystery shopper research carried by New Perspectives for Ofgem found that suppliers generally do not use such calls to identify consumers who would potentially benefit from energy efficiency advice, even when the call is about high bills, hard to heat homes or payment difficulties.

- 3.19 The research also highlighted concerns, relevant to both general call centres and specialist helplines, that suppliers often fail to ask questions to identify the fuel poor or those eligible for grants, and to follow-up advice with relevant printed information. While these and other findings are being followed-up separately by Ofgem, they are also relevant to this document.

Training frontline staff to identify certain characteristics

- 3.20 Frontline staff should be able to identify certain characteristics and have a basic level of energy efficiency awareness in order to identify consumers in need of energy efficiency advice. For example, it is good practice for frontline staff to be trained to:

- (a) identify consumers with excessively high bills
- (b) identify consumers who are struggling to pay
- (c) provide basic energy saving tips and information (verbal and printed) on the availability of grants
- (d) identify consumers in extreme difficulties that require a more holistic approach to their circumstances.

- 3.21 Front-line staff should be encouraged to refer such consumers on to a dedicated energy efficiency advisor for further action or other specialist teams as appropriate.

- 3.22 It is important that once identified, systems enable frontline staff to record characteristics for future reference, so that when the consumer next contacts the supplier, the call handler is able to identify known needs or specific circumstances (with care taken to ensure compliance with any data protection issues relating to the holding and disclosing of personal data).

Being proactive in the delivery of energy efficiency advice

- 3.23 Evidence from both suppliers and consumer agencies suggests that consumers faced with an energy debt are, understandably, likely to be focused solely upon the short-term concern of paying the money owed and avoiding disconnection. They may not be receptive to detailed discussions about energy efficiency. In being proactive in the provision of energy

efficiency advice, good practice would be for call-handlers to pass details through to the energy efficiency advice team to follow up at a later date.

Examples of when it may be appropriate to make the follow-up call are:

- (a) after sending a bill (to check everything is ok and following up with the offer of an energy efficiency visit)
- (b) after receiving payments, to check that the consumer is happy with the amounts and to discuss how they could be reduced
- (c) when made aware of a change in circumstances that could impact on usage.

- 3.24 It is widely recognised that face-to-face advice is the most effective method of delivering energy advice and good practice is therefore to offer to visit. However, visits can be expensive and not always possible. Where it is not possible for the supplier to visit the consumer, the details could be passed on to Warm Front managers or the local Energy Efficiency Advice Centre.

Holistic approach

- 3.25 When providing energy efficiency advice, it is good practice to consider whether the consumer is on the most appropriate payment method and making the best use of economy 7, for example. In appropriate circumstances, good practice would be to supplement energy advice with a free benefits health check and referral to money advisors.

Using consumer records to target energy efficiency

- 3.26 The flagging of records for future reference would enable suppliers to provide information regarding energy efficiency, priority register services or other matters, to those customers for whom this is likely to be most relevant.
- 3.27 MORI research for Ofgem suggests that nearly two-thirds of consumers either in debt or struggling to pay are in receipt of income related benefit and therefore in the priority group for the Energy Efficiency Commitment. Suppliers could make use of consumption or payment history to identify consumers that would potentially benefit from energy efficiency advice.

Targeting consumers with high bills

- 3.28 Consumers who rely on inefficient electric heating and have little or no energy efficiency measures could spend nearly twice as much on fuel as consumers with efficient gas central heating and high levels of energy efficiency. Based on average total energy bills, it is estimated that a household with loft, but no cavity wall insulation, and electric storage heaters could spend around £950 per annum, compared to £500 per annum for a household with both loft and cavity wall insulation and efficient gas central heating.
- 3.29 Suppliers are therefore encouraged to use their records to identify consumers with high bills - in particular, high electricity bills - as this may indicate a reliance on inefficient heating and low levels of energy efficiency. Consumers on very low incomes (including pensioners with income at Minimum Income Guarantee levels and families not in paid employment) could be spending more than 10% of income on fuel, and thus defined as 'fuel poor'.
- 3.30 In addition, where suppliers have systems capable of carrying out 'adequacy checks' to ensure that payments are in line with consumption, good practice would be to trigger energy efficiency advice when consumption raises beyond a certain threshold.

Consumers with debts or history of difficulty to pay

- 3.31 At least one supplier proactively offers energy efficiency advice to consumers repaying a debt through a prepayment meter. energywatch and Ofgem support such initiatives and encourage suppliers to go further by proactively targeting consumers at risk of getting into debt. This might include consumers that have repeatedly set up, but failed to maintain, frequent cash payment or direct debit arrangements, consumers with a history of payment difficulty, or prepayment consumers with a history of running out of credit or relying on use of emergency-credit.

Indices of social deprivation

- 3.32 One way of focusing on consumers likely to be in the greatest difficulty would be to use the Indices of social Deprivation 2000 (ID 2000). The ID 2000 consists of separate Indices at ward level on each of the six domains of deprivation: income, employment, health deprivation and disability, education skills and training, housing, and geographical access to services. This allows

all 8,414 wards in England to be ranked according to how deprived they are relative to other wards, for each domain.

- 3.33 The same six domains are used to make up the Welsh Index of Multiple Deprivation (2000) though they cannot be directly compared like for like with their English counterpart. Whilst a similar methodology is used, the components that make up the Indices are different.
- 3.34 The Scottish Area Deprivation Index was updated in 1998 and combines Census variables with more up to date non-Census variables and covers housing, health, the labour market, crime/wider environment issues, education and also poverty. The Scottish Index drills down to post code level.
- 3.35 Further information on the indices of social deprivation can be found at appendix 4. Where possible, suppliers are encouraged to use the ID 2000, the Welsh Index of Multiple Deprivation and the Scottish Area Deprivation Index to help prioritise their energy efficiency initiatives.

Demonstrating flexibility in debt recovery

- 3.36 It is neither in the company's interest nor the consumer's for debts to be allowed to rise. Suppliers generally accept that contact should therefore be early, but appropriate, with the recovery process designed to minimise the number of consumers disconnected.
- 3.37 We know that suppliers want consumers to contact them to discuss their problems. However, evidence suggests that consumers in financial difficulties are unlikely to do so, especially if they have previously encountered an inflexible response.

The recovery process

- 3.38 energywatch and Ofgem are supportive of suppliers that seek to segment consumers according to their circumstances and then tailor their recovery processes accordingly. The types of follow-up and intervals between contact will depend on a consumer's payment history, payment method and other circumstances. So, for example, where a consumer has a record of struggling to pay or paying late, suppliers may attempt to speak to them at an early stage of the recovery process.

3.39 Some consumers in hardship may ignore letters and calls. In these circumstances, suppliers have found visits to be a useful way of soliciting a response. It is good practice for suppliers to visit consumers, without charge, at least once before disconnection to establish circumstances and discuss repayments. Experience suggests that attempting visits at different times of the day, evening and weekend maximise the chance of contact. It is important that members of staff visiting consumers in such circumstances are trained in dealing with consumers in hardship and aware of obligations contained in Codes of Practice.

Encouraging contact

3.40 Research undertaken for the Social Action Plan identified a number of areas for suppliers to improve if they want consumers to contact them. These included a more understanding attitude, a quick and efficient approach to problems and a flexible attitude to resolving debt. It is therefore particularly important that members of staff dealing with consumers in debt should be able to negotiate repayments based on what the consumer can afford rather than applying a prescribed formula to every case without regard to the consumer's circumstances.

3.41 Evidence from NACAB and others suggests that suppliers are often unlikely to accept a consumer's offer of payment unless represented by a CAB. As a minimum, suppliers must comply with their Licence and Code of Practice obligations to take account of ability to pay.

3.42 Suppliers should inform consumers in difficulty about all available payment options and seek to establish what they can afford rather than telling them what they must pay. Where appropriate, good practice is to inform consumers in difficulty that their wider circumstances can be taken into account when considering the size of the repayments (such consumers may benefit from referral to a specialist money adviser). Where the supplier's policy is to ask for repayment over 12 months, the supplier should ask whether they can afford the amount calculated and if not ask what they can afford.

3.43 Suppliers should ask consumers whether they are on benefit and if so set payments no higher than the fuel direct rate, unless the consumer insists on paying more. If the consumer has a higher than average consumption, and

there is evidence of low-income, repayments should also be set appropriately. Simultaneously, the consumer should be offered a package of measures, including energy efficiency, free benefits-health checks and money advice.

- 3.44 When setting up a debt payment arrangement, it is good practice for suppliers to ask the consumer on what day they would like to make regular payments, to ensure that payment due dates suit the consumer's circumstances. Suppliers should encourage the consumer to contact them immediately if their circumstances change or they get into trouble with payments. Debt payment arrangements should be reviewed after 12 months to ensure payments are still at an appropriate level.
- 3.45 Fundamental to encouraging contact is a well-publicised telephone number (preferably freephone), management targets for answering calls within a set time and a routing system that quickly directs consumers to the appropriate team. It is good practice, when following-up bills or missed payments, to provide a telephone number that immediately links the consumer to an appropriately trained member of staff.

Offering sustainable solutions to consumers in hardship

- 3.46 All suppliers will have a relatively small number of consumers in extreme hardship, whose circumstances may require a more holistic approach to their situation. Suppliers are encouraged to have a mechanism for offering such consumers a package of measures, either in-house or in partnership with others (e.g. Trust Funds), designed to bring about a sustainable solution.

Identifying consumers in hardship

- 3.47 It is for suppliers' discretion how deeply they delve into a consumer's circumstances, but it may be appropriate when negotiating repayments with a consumer in difficulty to establish whether they have other debts. At this stage, the supplier should get a clearer picture about the extent to which the consumer has multiple debts and whether referral for more specialist advice and other assistance as that outlined below may be helpful.
- 3.48 Where suppliers are made aware of wider financial problems, suppliers should inform the consumer that there are organisations that may be able to help with any general debt problems and offer to provide details.

Acknowledging data protection issues and the need to obtain the consumer's agreement, good practice would be to contact the relevant agency on the consumer's behalf. Where suppliers have links with a trust fund or an internal program for offering sustainable solutions, this would be the stage to refer consumers.

- 3.49 It is widely acknowledged that such probing and advice needs to be handled in a sensitive manner. It is therefore important that suppliers have a team of staff trained to identify and refer consumers who they believe will benefit from a package of measures designed to offer a sustainable solution to their problems.

Aiming for a sustainable solution

- 3.50 The provision of a package of benefits designed to bring about a sustainable solution to consumers' situation can be done either through work with outside bodies, such as consumer agencies and trust funds, or the development of an internal program. Sustainable solutions would usually include a combination of the following measures:

- (a) independent money advice
- (b) energy efficiency advice and information about grants and measures available
- (c) free benefits health-check
- (d) one-off reduction in the debt
- (e) consideration of the consumer's overall debt situation before agreeing a payment arrangement.

- 3.51 In section 1, we briefly outline the work of Trust funds. AWTF reports that approximately 80 per cent of consumers receiving a grant and other assistance such as that outlined above were now in credit or making payments. Although other trust funds report a lower success rate, it is clear that such organisations can play an important role in providing sustainable solutions to consumers in difficulties.

Strengthening links with consumer agencies

- 3.52 At the consumer workshops, representatives from consumer agencies talked of their frustration at the difficulty that they face when discussing consumers' problems with suppliers. Good practice would be for suppliers to have a lead contact and a dedicated telephone number for agency queries.
- 3.53 Following from this, good practice would be for suppliers to establish a register of advice bodies in their home areas and provide information to these organisations relating to policies, procedures and contact points. Once established, it would be helpful if home suppliers shared the list with their lead energywatch office, which could then circulate to other suppliers operating in their area.
- 3.54 Historically, many suppliers have had strong links with agencies, providing funding and other resources to CABx and advice agencies. Such arrangements are important given that advice agencies can play an important part in assisting consumers in difficulty, who without independent help may be unable to pay their bills. All suppliers are encouraged, in strengthening links, to consider the benefits of providing funding and seconding staff to CABx, money advice and fuel advice agencies.

Helping consumers that are unable to manage their affairs

- 3.55 All major suppliers are likely to have a small number of consumers, probably unlikely to switch, who may be at risk of getting into debt due to an inability to manage their affairs. Such consumers will usually be eligible for the Priority Service Register, by virtue of their age or state of health.

Making more effective use of the Priority Service Register

- 3.56 As a minimum, suppliers should ensure that frontline members of staff know about the Priority Service Register (PSR), the services available to eligible consumers, including policies on disconnection and the installation of prepayment meters. Frontline staff should be encouraged to inform consumers about the PSR and its benefits when there is evidence of eligibility. Evidence from CABx suggests that there are many consumers who could benefit from these services but who are unaware about what is available.

3.57 Some suppliers have systems that enable frontline staff, when accessing a consumer record, to identify: (a) that a consumer is on the PSR; and (b) what their particular circumstances are, e.g. mobility problems, mental health problems, partially sighted, hard of hearing. Good practice would be for these details to appear clearly on the front page of the consumer record, with information about the services that might be relevant.

Providing additional help for those unable to manage their affairs

3.58 As mentioned above, there will be a small number of consumers, eligible to join the PSR who, by virtue of their state-of-health, disability or age, will be unable to manage their own affairs. Frontline staff should be trained and encouraged to identify such consumers. Many of these consumers should be eligible to join the Priority Service Register, but may not have applied due to their circumstances.

3.59 We know of at least one supplier that has a system for distinguishing these consumers from others, through a 'special care' database containing confidential information such as details of illness, social worker (or other third party) details, telephone numbers. energywatch and Ofgem considers this to be good practice. Whether or not a specific database is used, it should be clear to frontline staff - through a flag on the consumer service screen - that the consumer has particular problems. Consideration should be given to setting up a dedicated team to support such consumers with named contacts designated to each consumer.

3.60 It is considered good practice for suppliers, through a dedicated team, to contact such consumers by telephone or letter explaining that they are there to help and offering guidance on usage, energy efficiency, payment methods etc. Correspondence should be tailored to the consumer's circumstances and include a named contact to which the consumer or their representative can respond.

3.61 It is important to recognise that consumers with a difficulty managing their affairs may particularly benefit from energy efficiency, money advice and/or help from a third party. However, referrals will need to be handled with extra sensitivity, either by dedicated teams or staff trained in handling such consumers. The supplier should also seek to establish whether such consumers are on the most appropriate payment method. Where a consumer

is in debt and satisfies the qualifying criteria, Fuel Direct should be considered.

- 3.62 Evidence from the supplier mentioned above suggests that it may be beneficial to segment such consumers further, depending on their payment frequency. One example of how this could be done is shown below.

GREEN: Payments being made as agreed. Billing section/credit control to monitor account and inform team if payments become irregular.

AMBER: Consumer making irregular payments, but it is known that this is all the consumer can afford. Billing section/credit control to monitor and advise team if payments cease completely.

RED: Payments stopped. Dedicated team to manage recovery process and visit if necessary.

4. Good practice guidelines

- 4.1 The following guidelines are based upon the good practice that already exists in the energy industry or which energywatch and Ofgem believe is achievable and would benefit suppliers and consumers alike. We acknowledge that although some measures may involve costs, especially for suppliers that need to make IT changes, other measures will help reduce them by, for example, reducing the time spent on resolving errors, debt collection or repeatedly setting up broken payment arrangements.
- 4.2 The guidelines are set out under each of the six areas on which we are asking suppliers to focus their efforts. They are neither meant to be a checklist of obligations nor exhaustive. However, if suppliers are seeking to deliver good practice then we would expect to find these or alternative ideas in their respective strategies that achieve the same overall objectives.

Minimising billing errors

Meter reading

1. Develop measures and performance indicators designed to maximise the percentage of bills based on actual readings.
2. Where provided, use company or consumer own reads to generate bills in all cases except where an anomaly with the pattern of past usage requires investigation.
3. When unable to read the meter, meter readers should leave clear instructions on when they will return and, on subsequent visits, how and to where (preferably freephone number) a consumer can provide their own reading.
4. Clearly mark and distinguish estimated bills from bills based on actual reads and on subsequent estimates warn about the debt implications of not reading the meter.
5. Check estimated bills for accuracy against past consumption history to establish that they fall within defined accuracy limits.

6. Obtain an actual meter reading once every year in respect of consumers most at risk of debt.
7. Unless otherwise specified, provide a regular quarterly bill.

Problems following change of supplier

8. Obtain meter readings on date of transfer for consumers switching supplier.
9. Provide bill based on actual meter readings within 6 months.
10. Set regular payment arrangements based on consumption history or expected usage.
11. Where a supplier does not have the consumer's past consumption history, give a clear indication to the consumer that direct debit or weekly/fortnightly payment amounts are approximate and are not based on an actual reflection of their usage.

Redress

12. In situations where a supplier has clearly been in error and the consumer is not culpable, the supplier should provide means of redress, financial or otherwise. Redress may be appropriate in the following circumstances:
 - (a) no bill sent for over 6 months (unless agreed under the contract)
 - (b) no attempt to read the meter for over 2 years
 - (c) an actual read (provided by either a meter reader or the customer) has been ignored, or
 - (d) no attempt has been made to take a consumer's ability to pay into account.
13. Where supplier error leads to debt, types of redress may include, but should not be limited to:
 - (a) Reducing debts or writing-off debts over a certain age, for example, where they have been caused by the supplier's inability to bill accurately

- (b) not blocking the consumer if he/she wishes to change supplier
- (c) accepting repayment over an extended period at least as long as the period over which the bill has accrued (not withstanding the obligation to take into account ability to pay).

14. Redress will clearly be even more important if the customer is on a low income and his/her difficulties have been exacerbated by the billing problem and the manner in which it was handled.

Using incoming calls to identify consumers who would benefit from energy efficiency advice or other assistance

Training frontline staff

1. Train call-handlers to identify consumers in hardship. As a minimum, they should:
 - (a) identify consumers with excessively high bills (over £500 per annum for gas or electricity)
 - (b) identify consumers who are struggling to pay
 - (c) provide basic energy saving tips and information (verbal and printed) on the availability of grants
 - (d) identify consumers in extreme hardship that require a more holistic approach to their circumstances.

'Flagging' records

2. Use flags on the front page of consumer records to identify:
 - (a) consumers with high consumption
 - (b) consumers with a disability or other ailment
 - (c) consumers with a history of getting into difficulty.

Being proactive in the provision of energy efficiency advice

3. Energy efficiency advisors should vary methods and timing of contact to suit consumer's circumstances, including:
 - (a) following-up written correspondence with a telephone call
 - (b) telephoning at evenings and weekends to maximise chance of contact and ensure the consumer understands all the help that is available
 - (c) offering face-to-face advice, where feasible, and referral to Warm Front team or local EEAC where it is not.

Using consumer records to target energy efficiency

1. Use consumer records to identify consumers with one or more of the following attributes to be referred to energy efficiency advisors for follow-up:
 - (a) high consumption (over £500 per annum for gas or electricity), especially if all electric
 - (b) consumption has increased beyond certain threshold
 - (c) outstanding balance over £300
 - (d) pays by fuel direct or cash (prepayment or budget scheme)
 - (e) history of struggling to pay or self-disconnection
 - (f) sudden increase in usage
 - (g) lives in area of greatest deprivation.

Demonstrating flexibility in debt recovery

Recovery process

1. Segment consumers and use a variety of techniques and timescales depending on payment history and circumstances.
2. Attempt to speak to consumers with a history of difficulty early in the process.
3. Visit consumers free of charge at least once before disconnection visit.

4. Train staff visiting consumers to deal with consumers in hardship.
5. Ensure that correspondence sent after the red reminder clearly informs consumers about:
 - (a) the payment of bills code
 - (b) payment options and difference in cost
 - (c) charges associated with debt recovery process
 - (d) facilities for helping consumers whose first language is not English.

Encouraging contact

6. Ensure that staff dealing with consumers in difficulty have flexibility to negotiate repayments based on what the consumer can afford.
7. Inform consumers in difficulty about all available payment options, establish what they can afford, ask whether they are on benefit and tell them that any other debts will be taken into account when negotiating size of payments.
8. Set repayment at Fuel Direct level (currently £2.70 a week) for consumers on benefit and other low-income consumers with a high usage.
9. When agreeing repayment arrangement, set payments on a date that suits the consumer, encourage contact by the consumer if their circumstances change, and review arrangements after 12 months.
10. Have a well publicised freephone number, targets for answering calls within set times and efficient system of prompts that directs consumers to an appropriately trained team.

Offering sustainable solutions to consumers in extreme hardship

1. Train specialist members of staff to identify consumers with wider financial problems, provide details of other organisations that can help and, where appropriate, offer to contact the organisation on the consumer's behalf.

2. Have mechanisms that enable staff to identify and refer on consumers that they believe will benefit from a package of benefits designed to offer a sustainable solution to their problems.
3. Provide, either in-house or in partnership with others, a package of sustainable benefits that provide a combination of measures including the following:
 - (a) independent money advice
 - (b) energy efficiency advice and information about grants and measures available
 - (c) free benefits health-check
 - (d) one-off reduction in the debt
 - (e) consideration of the consumer's overall debt situation before agreeing a payment arrangement.
4. Have a dedicated manager to handle links with advice agencies and, in partnership with other suppliers and energywatch, establish a register of organisations and circulate details of policies and contact points.

Helping consumers that are unable to manage their own affairs

1. Ensure that all frontline staff are aware of the PSR and the services available to eligible consumers.
2. Encourage frontline staff to inform eligible consumers about the PSR and its benefits.
3. Collect and record sufficient detail to profile PSR consumers.
4. Flag front page of consumer records to show consumers on PSR, their circumstances, and the services that may be relevant.
5. Train frontline staff to identify eligible consumers who are unable to manage their affairs.
6. Have arrangements for helping such consumers to avoid the build up of debt.

5. Implementation and review

- 5.1 In previous sections suppliers have been invited to review existing policies and strategies on debt prevention, concentrating on six key areas. Under each of those areas, energywatch and Ofgem, with the help of the Advisory Group, have identified guidelines reflecting good practice.
- 5.2 As stated earlier in the document, energywatch and Ofgem do not regard the guidelines as a checklist of obligations. They reflect good practice, which suppliers are encouraged to adopt. Neither should they be considered as exhaustive. In some areas, suppliers may develop their own methods and ideas that achieve the same outcome in different ways.
- 5.3 However, both energywatch and Ofgem are determined that suppliers' strategies should bring tangible benefits to consumers. It is therefore important that we are able to measure progress. With this in mind we have identified six outputs and six key deliverables, which we will focus on when reviewing the impact of strategies.

Output measures

- 5.4 The purpose of this work is to help consumers avoid getting into debt, in particular long-term debt. It is hoped that a reduction in the numbers in debt should then have a knock-on effect on the number of disconnections and the number of prepayment meters installed to recover debt. Also, the importance of energy efficiency advice in helping customers avoid debt is a theme that runs throughout the document. It is recognised that these are only indicators and that there are other factors that can influence performance, which will be taken into account when reviewing progress. However, energywatch and Ofgem do not want to lose sight of what this project is designed to achieve.

Measure	Desired movement
Number of consumers repaying a debt	↓
Percentage with debt over £300 carried forward from previous bill	↓
Number of consumers disconnected for non-payment of debt	↓
Number of prepayment meters installed to recover debt	↓
Number of consumers provided with energy efficiency advice	↑
Number of consumers in debt provided with energy efficiency information	↑

- 5.5 All of the indicators shown above are currently collected by Ofgem on a quarterly basis. energywatch and Ofgem propose to use performance reported in January 2003 as a baseline for measuring companies' future performance and will review this quarterly in line with Ofgem's normal monitoring cycle.
- 5.6 In addition to the quantitative outputs identified above, energywatch and Ofgem will use other qualitative methods for measuring progress, such as complaints' data and mystery shopper type research.

Key deliverables

- 5.7 With the help of the Advisory Group, energywatch and Ofgem have identified one key deliverable under each of the six areas outlined earlier in the document. Focus on delivery in these areas will, in our opinion, demonstrate a commitment to debt prevention and bring the tangible benefits that we all seek. Therefore, in reviewing progress, energywatch and Ofgem will focus on the following six areas:

- ◆ The measures and performance indicators in place designed to minimise billing errors, achieve a high proportion of bills based on actual readings and ensure that new consumers receive a bill based on an actual reading within 6 months
- ◆ The training of call handlers and the use of 'flags' on consumer records, to help frontline staff identify consumers who would benefit from energy efficiency advice or other assistance (including use of the Priority Service Register or a more holistic approach to their problem)
- ◆ Plans for using consumption, payment and other data to proactively target consumers with energy efficiency advice and measures
- ◆ Measures in place to ensure that staff always check that the consumer can afford the amount and only collect minimum amounts (£2.70 a week) towards the debt from consumers in receipt of income related benefits or other low-income consumers with high bills
- ◆ How links have been strengthened with consumer agencies and any arrangements, in-house or in partnership with others (such as an

independent Trust Fund), for offering a package of measures that provide sustainable solutions to consumers in hardship

- ◆ The systems in place, using the Priority Service Register and other means, to identify and provide additional assistance to those consumers unable to manage their affairs

Timetable for implementation and review

6 November 2002	End of consultation period
January 2003	Publish guidelines and invite suppliers to review policies and prepare strategies
April 2003	Suppliers report progress with strategies to energywatch and Ofgem
July to Sept 2003	energywatch and Ofgem visit individual suppliers to discuss progress with the development and implementation of strategies and company performance
Sept 2004	Review impact of strategies on the outputs

5.8 energywatch and Ofgem recognise that the review of existing policies and development of new strategies may have IT implications and that suppliers may not be able to introduce proposed changes as quickly as we would ideally like, in particular where other IT projects have priority. Where this is the case, suppliers are encouraged to set out a timetable for implementation in their individual strategies.

5.9 It is anticipated that, in addition to the above, energywatch will review progress with suppliers' strategies on a quarterly basis. Ofgem will report on progress in the Annual Review of the Social Action Plan. energywatch will also consider reporting supplier progress on the development of their debt processes as part of its proposed Company Performance Matrix (COMPARE).

5.10 energywatch and Ofgem would like to see suppliers' debt prevention strategies have a positive impact on outputs within 2 years. energywatch has told Ofgem that if they do not it will press for further action, probably of a regulatory nature. Ofgem would have to review at that time what alternative steps might be appropriate, based on the progress that suppliers have made, and having regard to the costs and other impacts.

Appendix 1 energywatch and Ofgem duties

energywatch duties

1.1 energywatch's statutory functions and duties are laid down in the Utilities Act 2000. These include:

- ◆ investigating consumer complaints
- ◆ providing advice and information about consumer matters to public authorities, consumers, persons authorised by a licence or exemption and other persons whose activities may affect the interests of consumers
- ◆ making proposals about consumer matters and representing the views of consumers to public authorities and other persons whose activities may affect the interests of consumers;
- ◆ having regard to the interests of individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes and individuals residing in rural areas.

Ofgem duties

1.2 Ofgem's Principal Objective is to protect the interests of present and future consumers, wherever appropriate by promoting effective competition⁷. In performing that duty, Ofgem is obliged to have regard to the interests of individuals who are disabled or chronically sick; individuals of pensionable age; individuals with low-incomes; and individuals residing in rural areas.

⁷ As set out in the Gas and Electricity Acts, as amended by the Utilities Act 2000

Appendix 2 Ofgem's Social Action Plan and monitoring data

2.1 Under the Social Action Plan, Ofgem has already undertaken a number of work strands designed to help customers in debt and focus suppliers on prevention.

These are:

- ◆ new Codes of Practice obligations
- ◆ improved monitoring of performance
- ◆ research projects to inform future policy
- ◆ work on reducing the barriers of debt blocking
- ◆ working group on fuel direct.

Codes of Practice

2.2 The electricity and gas licences place a number of obligations on supply companies. These include Codes of Practice on the payment of bills and dealing with customers in difficulty, on energy efficiency advice, on the use of prepayment meters, and on services for older, disabled or chronically sick customers. Suppliers are required to treat customers in payment difficulties sympathetically. They must accept payment by instalments, offer a prepayment meter, and as appropriate use fuel direct.

2.3 One of the key undertakings in the Social Action Plan was to introduce a number of licence changes designed to improve the Codes of Practice. New Codes, approved in November 2000, have enhanced the provision of services to customers. The changes deliver improvements in the following ways:

- ◆ increased access to payment facilities for customers paying frequently by cash
- ◆ a new Code to ensure better information and services for prepayment meter customers
- ◆ a more proactive approach to the prevention of debt, through early contact with customers

- ◆ a better dialogue with customers in debt and an obligation to take into account the customer's ability to pay when negotiating debt repayments – the Codes now say that customers on benefit will not normally be asked to pay more than the Fuel Direct rate (currently £2.70 a week)
- ◆ improved promotion and provision of energy efficiency advice, in particular for customers on low incomes or those with payment difficulties – with such customers being directed towards grant schemes such as the new Home Energy Efficiency Scheme (HEES) and Energy Efficiency Commitment (EEC), and
- ◆ improved promotion and provision of services for vulnerable customers.

Improved monitoring

2.4 In April 2001, after extensive consultation with industry and consumer groups, Ofgem introduced new arrangements for monitoring suppliers' performance. Data now collected on debt includes:

- ◆ numbers in debt and average levels
- ◆ size of weekly payments and period of recovery
- ◆ numbers on fuel direct
- ◆ energy efficiency information to customers in debt and those on the PSR

2.5 The most recent data available (30 June 2002) on debt and recovery rates is shown below.

- ◆ approximately 4 per cent of electricity customers and 7 per cent of gas customers are repaying a long term debt
- ◆ approximately 85 per cent of customers repaying a debt owe £300 or less, with just over 40 per cent of gas customers and 60 per cent of electricity customers owing less than £100

- ◆ the average debt owed by electricity customers is £206, and the average owed by gas customers is £164
- ◆ on average gas prepayment customers are repaying debt at £4.83 over 52 weeks, whereas gas quarterly credit customers are repaying at £3.40 over 45 weeks
- ◆ on average electricity prepayment customers are repaying a debt at £3.79 over 53 weeks, whereas electricity quarterly credit meter customers are repaying at £3.97 over 46 weeks
- ◆ approximately 17 per cent of electricity prepayment meter customers (0.6m) and 50 per cent of gas prepayment meter customers (0.9m) are repaying a debt through a prepayment meter
- ◆ approximately 0.3m electricity quarterly credit customers and 0.5m gas quarterly credit customers are on debt payment arrangements (scheduled to last longer than 13 weeks).

Debt blocking

2.6 The electricity and gas licences allow suppliers to block the transfer of customers with a debt which has been outstanding for more than 28 days from the date of demand. Ofgem is seeking reform of this practice in order to increase access to competition and has made proposals to limit 'debt blocking'. The major suppliers have recently mounted a trial to test a new process of debt assignment to enable prepayment meter customers to transfer suppliers with their debt. Work is currently underway to evaluate the trial and refine the debt assignment process. Ofgem aims to consult on licence changes later in the year, with the aim of making the process permanent for all domestic suppliers.

Fuel Direct

2.7 Fuel Direct helps benefit claimants on Income Support and Income Based Job Seekers allowance threatened with disconnection for non payment, by making payments directly from their benefits. It is operated by the Department for Work and Pensions and Job Centre Plus. Suppliers have an

obligation in their licences to except Fuel Direct, which is generally made available where a prepayment meter is not a practical option.

- 2.8 The decline in use of the scheme in recent years has been of concern. Ofgem has organised a working group including suppliers and DWP to identify ways of improving operation of the scheme. This includes ensuring that it is applied consistently by suppliers and benefits offices, and that costs are reduced. In its current form, Fuel Direct tends to be seen as a last resort measure. It is not generally available as a debt prevention measure. However, its use is very important to a small group of vulnerable customers who find it difficult to manage their affairs.

Appendix 3 Membership of the Advisory Group

3.1 energywatch and Ofgem are very grateful for the contributions and time given by the following individuals:

Peter Lehmann (Chairman)	- Energy Saving Trust
Dave Barnes	- Ofgem
Lesley Davies	- energywatch
Martin Fitch	- Centre for Utility Consumer Law
Virginia Graham	- Ofgem
John Hanlon	- energywatch
Robert Larkins	- British Gas
Elaine Midwinter	- npower
Barbara Montoute	- PUAf
Teresa Perchard	- NACAB
Rob Potter	- DTI
Steve Russell	- Powergen
Tony Rose	- Seeboard
Hammy Smillie	- Scottish Power

Appendix 4 Indices of social deprivation

England

- 4.1 In December 1998, the DETR commissioned the University of Oxford to review the 1998 Index of Local Deprivation, and to create an update Index in the light of criticism of the 1998 ILD and the availability of new data sources. The ID 2000 consists of:
- ◆ separate Indices at ward level on each of the six domains of deprivation: income, employment, health deprivation and disability, education skills and training, housing, and geographical access to services. This allows all 8,414 wards in England to be ranked according to how deprived they are relative to other wards, for each domain.
 - ◆ a ward level Index that brings together information from the six domains of deprivation into one overall Index of Multiple Deprivation (IMD 2000)
 - ◆ a supplementary Child Poverty Index at ward level, which gives the percentage of children living in households that claim means-tested benefits
 - ◆ six district level summaries of the IMD 2000 which allow all 354 local authority districts to be ranked according to each measure. These summaries take account of the different patterns of deprivation found in different areas.
- 4.2 The IMD 2000 is constructed from 33 indicators using up-to-date information to describe deprivation at ward level. This includes information from sources such as Department of Social Security (DSS) benefits data and University and Colleges Admissions service (UCAS) data, which have not been previously available.
- 4.3 The Indices have been designed to show the range of deprivation from most deprived to the least. While the most deprived wards are spread throughout all regions of England, there are also significant concentrations in some areas.

- 4.4 Many urban areas have high levels of multiple deprivation. In nearly all inner city areas there are some very deprived wards, which sometimes exist side by side with significantly less deprived areas. The conurbations of Manchester and Liverpool have more consistently high levels of multiple deprivation than most other areas. The North West as a whole has 216 of 10% most deprived wards in England – over a fifth (21%) of all its wards are amongst the 10% most deprived and over a third are amongst the 20% most deprived.
- 4.5 Traditional manufacturing centres suffer from extensive deprivation. Birmingham, for example, has the highest numbers of income and employment deprived people of any district. There are also significant concentrations of multiple deprivation in Greater London, particularly in the north east quarter. All of Hackney's wards are within the 10% most deprived wards in England as are all but one of Newham's and Tower Hamlet's wards.
- 4.6 High levels of multiple deprivation can be found in the former coalfield areas, for example, in the area around Sheffield include Barnsley, Doncaster and Rotherham. However, whilst nearly 30% of wards in Yorkshire and Humber are amongst the 20% most deprived wards in England there are also many less deprived wards.
- 4.7 In north east England, areas such as Easington and Sedgfield have very high levels of multiple deprivation. 32% of all wards in the North East are amongst the 10% most deprived in England and nearly half of all wards in the North East are amongst the 20% most deprived in England.
- 4.8 The former tin mining areas such as Kerrier and Penwith in Cornwall also show high levels of multiple deprivation as do many seaside resort towns, e.g. Great Yarmouth, Hastings, Margate, Southend on Sea, Ilfracombe, and Skegness, and the ports of Plymouth and Bristol. Despite these significant pockets of deprivation, overall the East, South West and South East (excluding London) regions have the smallest proportion of the most deprived wards in England.
- 4.9 The most deprived 20% of wards on the IMD in England are therefore distributed as follows: the North West (21%), London (18%), North East (15%), East Midlands (10%), Yorkshire and the Humber and West Midlands (both 9%), South East (7%), South West (6%) and East (5%).

- 4.10 Birmingham is the most deprived local authority district in England in terms of the number of people that suffer from income and employment deprivation – 365,248 and 84,679 people respectively. Its ranking on the Local Concentration measure indicates that, in terms of the severity of its worst pockets, it is the 15th most deprived authority in England. On the other hand it is ranked 23rd and 43rd on the two average measures. This means that there are some relatively less deprived areas in Birmingham and this serves to deflate the averages. Cities such as Sheffield have a very similar pattern of rankings to Birmingham across the six measures – with a large number of deprived people and severe pockets – but slightly less severe overall averages.
- 4.12 Some cities rank relatively highly on all of the measures. Manchester and Liverpool rank amongst the 10 most deprived authorities on all of the measure illustrating that these cities have a large number of deprived people, their pockets of deprivation are very severe and their overall average levels of deprivation are very high.
- 4.13 Some districts such as Middlesbrough have very severe pockets of deprivation – ranking as the most deprived district in England on the Local Concentration measure. Middlesbrough also has a high overall average level of deprivation and the ‘Extent’ measure reveals that nearly 60% of the population live in one of the 10% most deprived wards in England. But because of its relatively small size it ranks relatively lowly at 56th and 58th on the two measures of the scale of deprivation.
- 4.14 The ward level IMD is summarised at district level using six different measures. The six measures are equally valid ways of presenting the ward level data, and are designed to summarise multiple deprivation however geographical patterns of deprivation are distributed. These datasets are available at <http://www.neighbourhood.statistics.gov.uk/metadata.asp?dsno=18>.

Scotland

- 4.11 In April 1998, The Scottish Office commissioned a research team from the Department of Urban Studies at the University of Glasgow to carry out a

feasibility study into the construction of a revised index of area deprivation and then to develop such an index for Scotland. The interim report was completed in draft form at the end of May 1998 and the team then proceeded with the development and analysis of the index.

- 4.12 The key distinguishing features of the new index are that it combines 1991 Census indicators with more recent non-Census indicators of deprivation (concerning deprivation dimensions of health, crime, education, unemployment, etc.) and that necessarily the index has been constructed at the level of *Post Code Sector* which is the smallest consistent basis possible for the data as a whole. It is acknowledged that Post Code Sectors are far from an ideal basis from which to measure deprivation but they are the best available level of analysis.
- 4.13 The study produced a set of six indicators (dependent households, overcrowding, the permanent sick, unemployment, youth unemployment and single parent families). The index was then presented in terms of the worst 10% of enumeration districts and distributed across (the old District) Scottish local authorities.
- 4.14 In total, a set of 12 indicators are drawn on to construct both the final updated index and a Census 1991 benchmark. The Census variables used in the final set of indicators are the following:
- ◆ **Overcrowding** (households in permanent buildings who are below the occupancy norm relative to all households in permanent dwellings)
 - ◆ **Lack of amenities** (households in permanent buildings lacking exclusive use of bath/shower/insider WC relative to all households in permanent dwellings)
 - ◆ **Vacant dwellings** (household spaces classified as vacant accommodation or other, relative to all household spaces)
 - ◆ **Participation at school** (students in full-time education at age 17+ relative to all 17-18 year olds)
 - ◆ **No-car households** (households with no car relative to all households)

- ◆ **Children in dependent-only households** (dependent children in households which contain no adult in employment relative to all children).

4.15 The non-Census variables chosen for the final set of indicators are the following:

- ◆ **Standardised mortality ratios** (0-64 all causes summed for five years 1992-96 relative to the adjusted 1996 CHI small area population forecast)
- ◆ **Low birth weights** (1992-96 summed index of the population of low birth weights relative to all Scotland)
- ◆ **Unemployment rate** (claimant count [NOMIS], 1996-97, relative to the adjusted 1996 CHI small area population forecast (age and sex adjusted))
- ◆ **Insurance weightings index** (three firm average weighting index of Post Code Sector home contents insurance premiums)
- ◆ **Students in higher education** (the number of full time students in higher education at their permanent address relative to the Scottish average)
- ◆ **Income Support claimants** (the number of claimants by Post Code Sector based on an August 1996 100% scan of the population).

4.16 The geography of deprivation is stark with the worst areas wholly dominated by Glasgow, which has 52 of the worst 90 post-code sectors. North Lanarkshire and Renfrew have 6 Post Code Sectors in the worst 10% and several, primarily large urban authorities, have between three and five (Edinburgh, Dundee, South Lanarkshire, West Dunbartonshire and Inverclyde). Stirling, Fife, Perth & Kinross and East and South Ayr have one. Widening the scale to the worst 20% brings in more local authorities (e.g. North Ayr) but typically reinforces the basic deprivation pattern.

4.17 The intensity of deprivation can be measured on the basis of the average worst three scores for a local authority (who had at least one post code sector within the worst 10%). Glasgow has the highest score of all the Unitary Local

Authorities illustrated in the table and is some 17% greater than the next highest score (Edinburgh). Dundee and Renfrew follow some way behind; the two Lanarkshire councils and West Dunbartonshire are then next, with broadly similar scores.

4.18 The extent of deprivation is defined as the share of a local authority's total population belonging to that local authority's Post Code Sectors, which are in the worst 10% of all Post Code Sectors. This measure, which is subject to a margin of error, shows that Glasgow has 60% of its population living in areas of multiple deprivation. Just under a third are located in the worst areas of Dundee; are either side of a fifth of the population of Inverclyde, North Lanarkshire, West Dumbarton and Renfrew. This makes an interesting comparison with the number of Post Code Sectors within a local authority that fall into the worst category and suggests that the extent is narrower than number of bad areas for several local authorities.

4.19 Some wider conclusions are possible. Part of the brief required discussion of future developments with the index and its successors. The main points that stand out are as follows:

- ◆ There needs to be a separate study of rural deprivation.
- ◆ There is merit in a multi-level and multi-measure analysis of area deprivation
- ◆ Direct measures of deprivation are preferable to indirect or proxy measures (i.e. the Census should not be used if there is better non-Census data, for instance, social security data).
- ◆ There needs to be continued progress with integration and joint working between government data holders in order to maximise the usefulness of geo-referenced socio-economic data.
- ◆ Future indexes should continue with the philosophy of multiple domains measured through techniques in similar vein to the signed logged Chi-square.

4.20 The findings on a post code basis from the Scottish Deprivation Index can be found at

http://www.scotland.gov.uk/library3/education/Area_Deprivation_Index.xls.

Wales

- 4.21 The Welsh Index of Multiple Deprivation replaces the existing Welsh Index of Socio-Economic Conditions.
- 4.22 The earlier Index was developed in the 1980s and used eight ward-level indicators. It was originally prepared for targeting urban regeneration funds, and so did not specifically reflect rural deprivation. In 1999 the Welsh Office (now the National Assembly for Wales) in partnership with the Welsh Local Government Association awarded a contract to a team from Oxford University to develop a new Welsh Index of Multiple Deprivation.
- 4.23 The aim of the Welsh Index of Multiple Deprivation is to model levels of deprivation in Wales and support policy development and the targeting of resources. The previous deprivation index used the Census of population as the main source of small area data. The new Index is based on more direct measures of deprivation at the small area level, some of which are based on new sources of administrative data.
- 4.24 Multiple deprivation is represented as being made up of distinct dimensions or domains of deprivation: income, employment, health, education, housing, and access to services. This approach allows the domains to be used separately to identify geographical areas having particular kinds of deprivation, or combined to form the overall Index of Multiple Deprivation. The Index has been designed so that it can be updated when new data become available and can be revised by incorporating new data sources. The Index will be updated periodically (possibly every two years).
- 4.25 A similar methodology to that used for England has been used (again by the Oxford team) to produce an analogous Index for Wales. But the two Indices cannot be used for comparing areas in England with those in Wales (for example, by slotting a Welsh score in an English ranking). The components, which make up the Indices are different; they have just been put together in a similar way.
- 4.26 No general analysis of the results from the Welsh Index of Multiple Deprivation appears to be available, but Index scores, ranking of electoral divisions and maps showing the most deprived areas for each domain, as well as the overall Index can be accessed through

http://www.wales.gov.uk/keypubstatisticsforwales/content/publication/social/2000/deprivation/intro_e.htm