

StepChange Debt Charity response to Ofgem consultation on Draft Consumer Vulnerability Strategy 2025

Introduction

StepChange Debt Charity is the largest specialist debt advice charity helping people across the UK. We provide free debt advice to people over the telephone and online. In 2018, over 650,000 people contacted us for help and support with their problem debt and we provided full debt advice to 357,252 people.¹ In 2018, we advised 41,953 people with electricity arrears (equivalent to 16% of all clients with responsibility for electricity bills) and 22,826 people with gas arrears (12% of all clients with responsibility for gas bills).

At StepChange, we consider all our clients to be financially vulnerable. However, some clients may have additional vulnerabilities, on top of their financial difficulties. In 2018, 36% of our new clients had an additional vulnerability. This includes, for example, mental health or physical health problems, learning difficulties, vision or hearing impairments and communication difficulties.

In recent years we have seen some welcome progress in terms of how vulnerability and affordability are dealt with in the energy sector. However, there remains much to do and we warmly welcome Ofgem's commitment to continuing to address these issues, as set out in the draft strategy. The strategy appears to contain a good level of ambition and it is positive to see the regulator taking a strong stance on these issues. In this response, we set out our position on some of the key questions, including our support for strengthening the Ability to Pay principles. We highlight where we believe ongoing focus is needed, such as improving the ability of people in arrears to switch, reconsidering the use of Fuel Direct in light of affordability concerns and ensuring people with arrears can get affordable repayment plans set up. We also talk about our view on Ofgem's role in wider affordability debates and why we believe it is important for Ofgem to consider the role of social tariffs as part of its assessments regarding the ending of the price cap. Finally, we highlight the importance of suppliers taking a proactive role in identifying and tackling financial difficulties and set out how we would like to see efforts to improve the Priority Services Register (PSR) used as an opportunity to consider financial vulnerability too.

Throughout this response, we draw on our insight as a debt advice provider, and reference statistics from our clients. A full set of our relevant statistics regarding our clients' experiences of their utility providers is included in appendix 1.

Question 1: Do you agree with the five priority themes and the outcomes we will aim for?

In our response to this question we focus particularly on the 'Supporting those struggling with their bills' theme, and the four outcomes that sit under this. We warmly welcome the focus on this theme within the draft vulnerability strategy.



While the level of electricity and gas arrears has been relatively stable over the past few years, we are starting to see some increases in the proportion of our clients saying they are behind on these bills.

Electricity arrears amongst new StepChange clients, by year

Year	% of clients with responsibility for an electricity bill who were in arrears	Average arrears amount
2014	14.2%	£594
2015	13.8%	£638
2016	13.3%	£677
2017	14.3%	£684
2018	15.8%	£736

Gas arrears amongst new StepChange clients, by year

Year	% of clients with responsibility for a gas bill who were in arrears	Average arrears amount
2014	13.6%	£541
2015	12.7%	£539
2016	11.6%	£553
2017	11.5%	£537
2018	11.8%	£559

NB: Please note that, where a client has both gas and electricity with the same supplier, this is most likely to be captured in the electricity arrears figures, which may contribute to why this is higher than for gas.

Affordable repayment plans

Given the increases we are seeing in the proportion of our clients with arrears on their energy bills, it is concerning that the proportion of customers with a payment plan set up is falling (as highlighted in the strategy). Given that energy is a priority debt, it is vital that people who fall behind are supported to set up affordable repayment arrangements. We are concerned that, in a number of cases, this is not happening.

In 2016 we conducted a survey of StepChange clients, to find out how they were treated by their different creditors, including utility companies.ⁱⁱ We repeated this survey in 2018.ⁱⁱⁱ This revealed that the proportion of clients who had a repayment rate set at a level they could not afford had remained the same since 2016. 7% of people had experienced this from their gas provider and 8% from their electricity provider^{iv} (note: these percentages relate to all clients surveyed, not just those with energy arrears).

When a client experiences poor practice, our advisors are able to record this to help us identify issues across different sectors. The below examples, of real situations that our clients have faced, highlight some of the issues we still see around affordable repayments.

Client has offered £80 per month against the debt of £1,100 but [energy firm] have rejected this and request a payment of £95 per month, which client feels she cannot afford. Client feels [energy firm] are being unreasonable as this is a fair offer of all she can afford. (Experience of StepChange client, 2019)

Client is unhappy that [energy firm] have gone back on an agreed rate of arrears deductions on their pre-payment meter. Was agreed at £2 per week from a £10 top up but they are currently taking £7. (Experience of StepChange client, 2018)

Client complained that [energy firm] as they are unhelpful and unsympathetic, making demands for money that is creating unnecessary stress to client. Client says she is willing to pay but cannot afford what they are asking. (Experience of StepChange client, 2018)

Client unhappy that [energy firm] have rejected his payment offers and that they are requesting an unaffordable amount to cover his usage and arrears. They are also wanting to install a pre-payment meter. (Experience of StepChange client, 2018)

Ofgem's focus on the following outcome is therefore very welcome: *"We want consumers in payment difficulty to be proactively supported, including by being put on an affordable payment plan. We want to see more consumers become debt-free for their energy debt as a consequence, and the levels of debt to come down overall"*.

At StepChange, we help people to arrange appropriate and affordable ways to deal with their debts, including repaying their priority arrears. However, one of the challenges we have found is that it can be difficult to set up repayment plans for energy arrears or to include these within Debt Management Plans, because of challenges around splitting out arrears from ongoing consumption costs. If the outcome set out above regarding affordable payment plans is to be achieved then energy firms will need to show more flexibility in this area, including splitting arrears from consumption to enable these to be paid back at an affordable rate over an appropriate period of time.

With the proposed introduction of Breathing Space in 2021 and Statutory Debt Repayment Plans (around 2022), energy suppliers will be compelled to do this anyway, as any energy arrears will have to be included in breathing space or the plan. Energy suppliers will not be allowed to undertake any collection or enforcement action while someone is in breathing space or repaying their debts through the plan. However, energy suppliers should not wait until the introduction of these schemes to take action. **They must, under the supervision of Ofgem, improve their practices around affordable repayment plans and urgently increase the proportion of customers in arrears who are on affordable repayment plans.**

Client's budget showed £212 available to pay [energy firm] - £84 usage and £128 to arrears. Today [energy firm] have asked client to pay £212 just to arrears, and haven't understood that this figure includes usage as well. Client reports that she cannot get them to tell her the usage figure she should pay and that [energy firm] have refused her lower offers of payment towards arrears. (Experience of StepChange client, 2019)

Client has arrears on her energy bill and does not dispute this but has complained to [energy firm] as they took 7-8 months to confirm the separate amounts for her regular, ongoing use payment and her repayments towards her arrears. (Experience of StepChange client, 2019)

Client has been receiving harassing calls from her energy firm, up to 4 calls and 4 emails a day chasing the debt up. Client has made [energy firm] aware several times that StepChange are acting on her behalf and they have already taken a payment from us and acknowledged this. (Experience of StepChange client, 2018)

Ability to Pay principles

Given the concerns we have set out above, **we strongly support Ofgem's proposals to strengthen the Ability to Pay principles.** These emphasise the importance of identifying and understanding a customer's ability to pay and of setting repayment rates based on this. Strengthening the status of these principles would send a clear signal to all firms that they must take ability to pay seriously.

As the strategy highlights, there are also issues around consistency across the market, with some (particularly smaller firms) appearing to be setting higher repayment rates on average. Strengthening the Ability to Pay principles may help to drive a better consistency across all suppliers and ensure that newer entrants to the market recognise the importance of investing in the staff and structures to deal with financial vulnerability effectively.

Deductions from benefits to repay energy arrears (Fuel Direct)

One area that is not mentioned in the strategy that we would like to see further attention given to is the use of Fuel Direct. Fuel Direct can offer a helpful method of repaying debt and managing bill

payments for some people. However, research by StepChange Debt Charity has found that, for others, deductions can cause harm. This is often caused by the fact they are set at a fixed rate, regardless of whether that is affordable to the individual or not. They may also be taken alongside other deductions to repay other debts, which can leave people with very small amounts of benefits to live on. This is especially the case under Universal Credit.

In a previous survey we conducted with StepChange clients, 5% said they had a deduction taken from their benefit to repay energy arrears.^v Of our clients who had deductions (for any type of debt, not just energy arrears), over 70% said it had caused them or their family hardship. 2 in 5 (40%) fell behind on other bills as a result of the deductions - meaning that deductions could actually be contributing to the cause of the problem they are trying to solve, by pushing people further into debt. A quarter (25.7%) had cut back on food spending as a result of a deduction and a further 24.6% have found it difficult to pay for heating as a result of direct deductions.^{vi}

DWP rules on deductions say that prior to applying for one a creditor must have tried other methods to recover the debt. This should include negotiating different ways of paying and managing bills. They should also ensure that the individual has been referred to free debt advice, where appropriate. However, evidence from the survey suggested that this is not always happening prior to a deduction being applied: Only 22% said their creditor had referred them to debt advice before applying a deduction.^{vii}

Energy firms must ensure that deductions from benefits are only used as a last resort. Where they are used, they need to satisfy themselves that they are affordable for the individual and they should make every attempt to negotiate an affordable repayment plan with them beforehand, including referring them to free debt advice. Given that many people who have deductions taken from their benefits are likely to be vulnerable, we would like to see this issue reflected in Ofgem's final vulnerability strategy.

There is also a further issue linked to Fuel Direct that we have seen. We sometimes hear from clients that energy suppliers often refuse to accept payments below the floor of £3.70 each week (the amount that can be taken as a deduction from certain benefits). For vulnerable clients with marginal incomes, this figure can be a significant amount and can be unaffordable, particularly where there are other priority arrears commitments. The practise is particularly detrimental to customers with pre-payment meters who can find that a significant proportion of any payment they make for energy is automatically deducted and set against arrears. Around two-thirds of StepChange clients report that creditors refuse to accept payments below £3.70 each week; those least likely to do so are local authorities, water suppliers and energy suppliers.^{viii}

This practice is at odds with the Ability to Pay principles, which states suppliers should set repayment rates based on ability to pay. It also conflicts with the Energy UK Safety Net objectives, which commits suppliers to offer a range of debt repayment options in order to find the most appropriate solution for vulnerable customers to manage any debt. **Ofgem should monitor repayment rates, and ensure that firms are taking a comprehensive view of a customer's ability to pay rather than routinely using a set amount as a minimum repayment cap.**

Helping customers in arrears to switch

One area that we would have liked to have seen more focus on in the strategy is on supporting customers in arrears to switch suppliers. The strategy acknowledges (in paragraph 4.3) the now well-known fact that vulnerable consumers are less likely to be engaged in the market or to switch suppliers or tariffs, meaning they are often on expensive standard variable tariffs. This can exacerbate financial difficulties and make it harder for people to afford their bills.

We were therefore disappointed not to see more focus in the vulnerability strategy on supporting people with arrears to switch suppliers. Ofgem's report *Vulnerable consumers in the energy market: 2018* highlighted that, although there had been an increase, the overall number of people on prepayment meters (PPM) who successfully used the Debt Assignment Protocol (DAP) to switch suppliers remained low – at 6% for electricity and 5% for gas. Although we recognise that some other customers may manage to switch outside of the DAP process, **we would like to see the rates of successful switches significantly increasing and would welcome further clarity from Ofgem on how they intend to work with suppliers to achieve this.**

The introduction of flipping services into the market has raised debates about whether these will help to improve switching rates and deliver positive outcomes for consumers. It will be important that these are closely monitored, particularly for the impact on vulnerable consumers. As the draft strategy acknowledges, there is a risk that vulnerable consumers may not benefit from innovative products (such as smart meters and data). This could lead to a widening of the gap between outcomes for vulnerable consumers, compared to others. The inclusion of a specific outcome on addressing this (outcome 4A) is therefore positive to see. However, we would like to see further information on how Ofgem will achieve this. This may require Ofgem, alongside the Department for Business, Energy and Industrial Strategy, to review whether the current powers the regulator has relating to consumer protection are sufficient – as some of these innovations (such as flipping services) may fall outside the current regulatory remit.

Early intervention and referrals to debt advice

Finally, **we would welcome there being further emphasis in the final vulnerability strategy on the importance of energy suppliers taking a proactive approach to identifying financial vulnerability, as well as non-financial vulnerability.** Our latest research ([*Life happens: Understanding financial resilience in a world of uncertainty*](#)) highlights that many people fall into debt after a life event or shock, such as losing their job, falling ill or a relationship breakdown. People who had experienced a life event in the last two years were almost three times as likely to have fallen behind on essential household bills (such as rent, mortgage, energy bills, council tax).

People in this position may not have previously experienced any difficulties paying their energy bills but may find that, due to their change in circumstances, they begin to struggle. This may be due to increased energy usage (and therefore costs), reduced income or a combination of both. While, for some of these events, the energy company would have no indication, for others – such as falling ill – there may be indicators, such as increased energy usage. Firms should be proactive in discussing with customers where there are indicators of vulnerability and offering support.

Our research found that only 4% (around 920,000 GB adults) of those who had experienced a life event in the last two years had approached their energy or water company for help with bills.^{ix} Of

those who did, 26% are currently in problem debt and 43% are showing signs of financial distress. This does not mean that support is necessarily ineffective at keeping people out of problem debt; the support people receive from their utility provider is only one part of a wider range of factors that can impact on people's ability to cope after a life shock. We are also concerned that people may not be getting support early enough.

This early intervention approach, including early referrals to free debt advice where appropriate, will help to ensure that a customer's problems can be resolved as quickly as possible. We recently conducted a pilot project analysing outcomes for StepChange clients following debt advice, which highlighted the beneficial impacts that getting debt advice can have. Three months after advice, 60% of clients said their overall financial situation was better than before seeking advice. Even better, 12% said their debt problem was now completely sorted.^x When people do not receive debt advice early enough, their overall financial situation is likely to deteriorate further, making it harder for them to keep up with essential bills, such as their energy costs:

- The average total unsecured debts of StepChange Debt Charity clients who waited a year or more before seeking advice were over £5,000 more than those who sought advice within a month of starting to worry about their debts
- People waiting over 6 months to seek advice were disproportionately more likely to have debts over £10,000, had more credit card and overdraft debt outstanding and had contractual credit repayments that were on average 14% higher than people who sought advice earlier.^{xi}

Finally, we would also like to see **firms using conversations about PSR services as an opportunity to ask about financial support needs**. Whilst not everyone who has a non-financial vulnerability will be financially vulnerable, we know there are strong links between the two. Firms should be maximising opportunities to identify the wide range of needs a customer may have and offer them appropriate support. The below examples highlight what can happen when firms are not proactive in resolving issues faced by vulnerable customers.

Energy firm have increased the client's monthly direct debit without investigating the spike in her usage. They claim that her boiler may be faulty, but have not offered to have the meters checked. They admitted that the meter readings may be incorrect also, but then took no further action to rectify this. This is a vulnerable client with ill-health and she feels that her energy firm have not offered sufficient support to help her deal with her rising energy bills. (Experience of StepChange client, 2018)

Client spoke to [energy firm] about her arrears and asked them not to install a prepayment meter due to her health conditions - fibromyalgia. The advisor at [energy firm], stated to the client that no consideration would be given to her health condition. (Experience of StepChange client, 2019)

Question 2: Do you agree with our approach on affordability? While we recognise this is a concern for many consumers in vulnerable situations, we think addressing wider affordability pressures is mainly a matter for government to address.

We appreciate that, as the regulator, Ofgem has to work under the remit given to them by Parliament. However, given that one of the outcomes within the vulnerability strategy is that consumers “have access to affordable energy”, there is clearly some need for Ofgem to consider wider affordability issues. This is particularly the case when it comes to vulnerable customers who, as Ofgem have acknowledged, are more likely to be on expensive tariffs and less likely to benefit from competition within the market (via switching).

Indeed, our analysis found that clients who had an additional vulnerability on top of their financial difficulties were more likely to be behind on their energy bills, and also spent a much higher proportion of their income on essential costs. For clients with vulnerabilities, on average, half of their monthly income was spent just paying essential household bills – such as energy, rent, council tax and water.^{xii} When food is added, this rises to 70%, leaving them with very little money left to afford other things such as clothing, school uniforms, and household goods. It’s also worth remembering that if someone has an illness or disability, they may face additional costs related to this – such as medicines, mobility aids or regular travel to and from hospital.

	Clients with vulnerabilities	Clients without vulnerabilities
Average proportion of monthly income spent on essential household bills ^{xiii}	50%	47%
Average proportion of monthly income spent on essential household bills ^{xiv} and food	70%	65%

Given this, we do have significant concerns about the ability of some customers, particularly those who are vulnerable, to afford their energy bills, even at prices which ‘reflect the efficient cost of supplying energy’. We recognise that this may largely be a social policy issue (and therefore the remit of government). However, under the Domestic Gas and Electricity (Tariff Cap) Act 2018, Ofgem must review the price cap, assessing competition in the market and considering whether there are any groups of customers for whom ongoing protection against excessive charges is needed. We think there is a strong case that, as part of this, **Ofgem must consider the merits or otherwise of introducing social tariffs** (as also recommended recently by the Energy UK Commission for Customers in Vulnerable Circumstances). This will likely require them to work closely with the government, through the Department for Business, Energy and Industrial Strategy. Given the wider

work taking place across government and the regulator on the future of the energy market and the new fuel poverty strategy, it is vital that affordability is a key element of these considerations. While these decisions may ultimately be for government, Ofgem is well placed to collect detailed evidence on the need for social tariffs, as well as the views of both firms and consumers and present recommendations to government. We look forward to further conversations about this.

Question 3: What more could be done through energy regulation to assist consumers in vulnerable situations in the longer term? How should any such further measures be funded?

We have no specific response to this question at this time.

Question 4: Do you agree with our proposals for the first year of the strategy?

The priorities set out in the strategy for the first year seem sensible. As we set out above, we welcome the focus on strengthening the Ability to Pay principles so it is positive to see this reflected in the immediate priorities for the strategies. Likewise, the ongoing focus on self-disconnection is an important priority in protecting some of the most vulnerable consumers. It is welcome that the immediate priorities also set out the need to create a framework by which to assess the impact of policies on particular groups of consumers in vulnerable situations. This will be important for the ongoing monitoring not only of Ofgem's work but to help measure progress against the outcomes set out in the strategy.

Appendix 1: Further data on StepChange clients' experience of energy and gas suppliers

Earlier in this response, we highlighted some figures taken from our 2016 and 2018 survey of our clients' experiences of different creditors, including their energy suppliers. Here we provide the full set of results relevant to electricity and gas suppliers, in case of use for Ofgem's future work on these issues.

The 2016 survey had a sample size of 1,794 StepChange clients who first contacted the charity between June - December 2015. The fieldwork was conducted online between 2nd May and 15th May 2016.

The 2018 survey had a sample size of 713 StepChange clients who first contacted the Charity between April 2017 and April 2018. Fieldwork was conducted online between 12th June and 25th June 2018.

Q: Have you experienced any of the following practices from in the last 2 years?

Electricity suppliers



Type of practice	Proportion of StepChange clients surveyed who experienced this from their electricity supplier	
	2016	2018
Threatening to disconnect service or fuel	7%	5%
Actually stopping or disconnecting service or fuel	1%	0%
Forcing the use of a prepayment meter for fuel	8%	4%
Set a repayment rate that I couldn't afford	8%	8%
Referred you to free debt advice after making firm aware of your financial situation	4%	5%
Offered a reduced payment plan after making firm aware of your financial situation	6%	6%
Advised you of other help available for people in financial difficulties, such as social tariffs or trust funds	4%	3%

Gas suppliers

Type of practice	Proportion of StepChange clients surveyed who experienced this from their gas supplier	
	2016	2018
Threatening to disconnect service or fuel	7%	4%
Actually stopping or disconnecting service or fuel	1%	0%
Forcing the use of a prepayment meter for fuel	8%	3%
Set a repayment rate that I couldn't afford	7%	7%
Referred you to free debt advice after making firm aware of your financial situation	4%	5%
Offered a reduced payment plan after making firm aware of your financial situation	5%	5%
Advised you of other help available for people in financial difficulties, such as social tariffs or trust funds	4%	3%

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ⁱ StepChange Debt Charity (2019) *Personal debt in the UK: 2018 Statistics Yearbook*

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- ii Creditor Conduct Survey (2016) - The sample was 1,794 StepChange clients who came to the charity for advice in Q3/4 2015. The fieldwork was conducted 2nd May and 15th May 2016.
 - iii Creditor Conduct Survey (2018) – The sample was 713 StepChange clients who first contacted the Charity between April 2017 and April 2018. Fieldwork was conducted online between 12th June and 25th June 2018.
 - iv Please note this percentage relates to all individuals, not just those with arrears on their bills.
 - v StepChange Debt Charity (2017) *Briefing on third party deductions*, Available:
<https://www.stepchange.org/Portals/0/documents/Reports/briefing-paper-third-party-deductions.pdf>
 - vi Ibid
 - vii Ibid
 - viii Ibid
 - ix StepChange Debt Charity (2019) *Life Happens: Understanding financial resilience in a world of uncertainty*
 - x StepChange Debt Charity (2019) *Measuring client outcomes*
 - xi StepChange Debt Charity (2015) *Safe Harbours*
 - xii StepChange Debt Charity (2018) *Breaking the Link: A closer look at vulnerable people in debt*
 - xiii Ibid
 - xiv Ibid

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