



**Money &  
Pensions  
Service**

Arina Cosac  
Senior Manager  
Vulnerability and Consumer Policy  
Ofgem  
10 S Colonnade  
Canary Wharf  
London E14 4PU

20 September 2019

Dear Ms Cosac,

**Re: Ofgem consultation on proposals to improve outcomes for consumers who experience self-disconnection and self-rationing**

The Money and Pensions Service welcomes Ofgem's consultation on this important area, positioned within the context of the draft Consumer Vulnerability Strategy 2025 on which we also recently provided views.

The Money and Pensions Service was created under the Financial Guidance and Claims Act 2018 that brought together the three organisations, the Money Advice Service, The Pensions Advisory Service, and Pension Wise. Our vision is of "Everyone making the most of their money and pensions" by ensuring that people throughout the UK have guidance and access to the information they need to make effective financial decisions over their lifetime. This includes ensuring that people have timely access to information and advice to allow them to avoid and manage debts.

We have therefore focused our response to questions five and six of this consultation that focus on Ofgem's Ability to Pay principles. Our detailed response is attached and confirms our support for strengthening the Ability to Pay principles by creating a licence obligation on energy suppliers to implement these, ensuring greater consistency in applying this best practice across the sector to improve outcomes for energy customers.

In terms of the principles themselves, we concur with Ofgem's view that these need to be updated to reflect forthcoming regulatory developments of the Breathing Space scheme and the Statutory Debt Repayment Plan (SDRP), but we also urge Ofgem to incorporate debt recovery best practice that has developed in other creditor sectors since the 2010 introduction of the principles.

The Standard Financial Statement (SFS), an initiative led by MaPs, sets out a consistent format for creditors and debt advice agencies to assess an individual's income and expenditure when considering debt repayments. The SFS is underpinned by household spending guidelines for flexible or discretionary spending, which we revise and publish on an annual basis to truly reflect affordability for any debt repayment arrangements for an individual.

**Money and Pensions Service**

120 Holborn, London EC1N 2TD t: +44 (0)115 9659570 w: [MoneyAndPensionsService.org.uk](http://MoneyAndPensionsService.org.uk)



The SFS has been adopted by 90 per cent of the debt advice sector in England and by many creditors, and will become a requirement of the SDRP. We would therefore urge Ofgem to amend the principles to encourage energy suppliers to both recognise and adopt this approach.

Finally, there is growing evidence of the benefit to overindebted customers and creditors of an early customer referral to independent debt advice agencies. We recommend that Ofgem's review of the Ability to Pay principles include a requirement for energy suppliers to have a debt advice referral strategy for all customer contact channels and to demonstrate that this is effective.

Customers that seek holistic debt advice may avoid deeper financial difficulties and have a better chance of ensuring that repayment arrangements for debts are affordable and sustainable. Ofgem's consultation document sets out several examples of unsustainable repayment arrangements that have failed and caused considerable hardship and distress to customers and their families, and independent debt advice will avoid this.

We also set out in our detailed response how access to debt advice for customers ensures secures better recovery rates for creditors so that the suppliers, as well as their customers, would benefit from including this in the revised principles.

We set out further detail on these points in the attached but trust that you will not hesitate to contact us should you require any further clarification.

Yours sincerely

**Valentine Mulholland**

Senior Policy and Propositions Manager  
Money and Pensions Service  
[Valentine.Mulholland@MaPS.org.uk](mailto:Valentine.Mulholland@MaPS.org.uk)

## **Response from the Money and Pensions Service**

### **Question 5: Do you agree with our proposal to incorporate the Ability to Pay principles in the supply licence?**

The serious impact of self-disconnection or financial difficulties in relation to gas and electricity supply are clearly well understood by Ofgem as set out in this consultation, with evidence of significant impact on physical and mental health for both children and adults. It is therefore critical to ensure that suppliers take all possible steps to support consumers to avoid such consequences. The Ability to Pay principles, updated as we suggest in response to the next question, are an important steer to best practice in a sector that provides an essential universal service to all households, including those in the greatest financial difficulty.

Encapsulating these principles in supply licences as a licence condition would elevate their importance within all energy suppliers' businesses and create greater consistency of approach across all suppliers, including those who are new to this relatively dynamic sector. It would drive a greater focus on these principles from early identification of customers who are struggling to setting up sustainable repayment arrangements that are clearly communicated to consumers, regularly monitored and reviewed. Importantly, it would form a greater part of Ofgem's compliance framework to identify where firms are not delivering to the principles and need to improve processes and approaches.

In addition, in order to ensure meaningful compliance that improves outcomes for consumers, clarity is needed over the accountability and responsibility for ensuring compliance when a supplier sub-contracts out their debt recovery activity or sells on the debt altogether. Arguably the crisis end of the debt recovery process, it is important that the best practice identified in the principles are also able to influence this activity.

### **Question 6: Do you agree with our proposal to update the Ability to Pay principles to reflect changes in supplier debt recovery practices? Are there other changes that we should implement?**

We welcome the recognition of the opportunity for better consumer outcomes through the delivery of the Breathing Space scheme and Statutory Debt Repayment Plan (SDRP) policies by HM Treasury. However, since the development of the Ability to Pay principles in 2010, there have also been a number of other significant developments in creditor good practice in other sectors that we believe should also be reflected in revised principles.

MaPS works across the sector with debt advice agencies and creditors to improve creditor practice to secure better outcomes for both them and their customers. As the Money Advice Service, one of our most important work with representatives from the debt advice and creditor sectors was the development of a common and best format for a Standard Financial Statement (SFS)<sup>1</sup>. This tool to support debt advice and creditor practice achieves greater consistency and a smoother transition through the process for consumers, advisers and creditors by creating a universal income and expenditure statement, together with a single set of spending guidelines that are annually updated to

---

<sup>1</sup> <https://sfs.moneyadviceservice.org.uk/en/what-is-the-standard-financial-statement/public-organisations>

reflect changes in the cost of living. It summarises a person's income and outgoings, along with any debts they owe, and provides a single format for financial statements, allowing the debt advice sector and creditors to work together to achieve the right outcomes for people struggling with their finances. Of particular interest for this consultation, debt advisers using the SFS will prioritise energy debts for repayment ahead of other 'non-priority' debts.

Importantly, use of the SFS will be required for compliance with the SDRP, so that it is critical that the review of the Ability to Pay principles in anticipation of the SDRP should encourage energy suppliers to adopt the SFS both in their own assessments of affordable repayment arrangements, and in considering assessments undertaken by debt advice agencies. The SFS has been adopted by more than 90% of the debt advice sector in England but in addition, approximately 600 of the 1500 members are creditor organisations who have signed up to recognise and use this as sector leading best practice in their own debt processes. Disappointingly, in the energy supply sector, only British Gas and Octopus Energy have currently signed up, significantly fewer companies than in other sectors such as water supply.

The SFS is highlighted as part of our wider recommendations in the strategic creditor toolkit that we launched in July 2017: 'Working Collaboratively with Debt Advice Agencies'<sup>2</sup>. Another key element of good practice from this toolkit that should be included in revised Ability to Pay principles for energy suppliers relates to independent debt advice. It is critical for creditors to refer their customers in debt to independent 'free to client' debt advice at the earliest appropriate opportunity, and to develop smooth and customer centric referral pathways to maximise the likelihood of take up by consumers. Debt advice is critical to ensure that a customer's debt repayment arrangements are realistic and affordable, taking into account their wider outgoings, commitments and other debts. Arrangements that do not take a wider view will often fail if consumers do not fully understand the extent of their debts, are under pressure from other creditors or underestimate day to day spend.

Our 2018 evaluation of 'The Economic Impact of Debt Advice'<sup>3</sup> provides significant evidence that aside from the positive impact on individuals, and particularly on improving mental health and addressing financial distress, there is a significant benefit for creditors who refer customers to debt advice. This is a result of improving the recovery rate on problem debt and reducing the costs to creditors in pursuing debtors, estimated in our report as a net benefit of over £135-237 million annually.

Similar findings were also reported in the National Audit Office's recent report into 'Tackling Problem Debt'<sup>4</sup> in September 2018, which recognised utility debts as a growing problem and that "*Evidence shows that good debt collection practice both benefits individuals and boosts collection rates. Common best practice principles include timely assessments of vulnerabilities, affordable repayment plans, and signposting or referring people to debt advice. Research in 2014 estimated that tailored debt advice, support and affordable repayments saved creditors £82 million in a year from 110,000 over-indebted clients, an average saving of £750 per person.*"

---

<sup>2</sup> <https://www.moneyadviceservice.org.uk/en/corporate/influencing-creditor-support>

<sup>3</sup> <https://www.moneyadviceservice.org.uk/en/corporate/economicimpactdebtadvice>

<sup>4</sup> <https://www.nao.org.uk/wp-content/uploads/2018/09/Tackling-problem-debt-Summary.pdf>



**Money &  
Pensions  
Service**

With such recognition of the value of early access to debt advice for customers getting into difficulties, we would urge Ofgem to reflect this in any update to the Ability to Pay principles.