

# Consultation Response



## StepChange Debt Charity response to the Ofgem consultation: 'Allocation of voluntary redress payments in the context of enforcement cases'

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions services are effective, tailored and importantly, free. Foundation for Credit Counselling Wade House, Merrion Centre, Leeds, LS2 8NG trading as StepChange Debt Charity and StepChange Debt Charity Scotland.

A registered charity no.1016630 and SC046263. It is a limited company registered in England and Wales (company no.2757055).

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## Introduction

StepChange Debt Charity welcomes the opportunity to respond to this Ofgem consultation on the 'allocation of voluntary redress payments in the context of enforcement cases'.

StepChange Debt Charity is the largest specialist debt advice charity working across the UK. Last year more than 500,000 people contacted our free telephone helpline and on-line debt remedy tool for support and advice about problem debt. This experience makes us well placed to talk about the experience of financially vulnerable households.

In 2015 over 32,000 StepChange Debt Charity clients had electricity arrears and over 21,000 had gas arrears. We estimate that around a third of our clients spend 10% or more of their monthly income on fuel. Around 40% of our clients have arrears on essential bills, highlighting further the difficulties people in financial difficulties have with meeting on-going household bill payments.

Some 70% of our clients have net household incomes below £20,000 per year, with a quarter with net household incomes below £10,000 a year. Over a quarter of our clients have a deficit household budget (essential expenditure higher than income). Around seven in ten cited an income shock or change in circumstances as the main trigger of their financial difficulties.

So we believe that there is a pressing policy imperative to support low and middle income households most vulnerable to problem debt through:

- Budgeting support that helps people to keep up with on-going energy bills
- Holistic debt advice that helps people to deal with energy arrears and other debts in a comprehensive way
- Advice and support on energy efficiency, tariffs and other help available to increase the affordability of fuel usage

At present funding from the energy sector for advice and support services to deliver these outcomes can be patchy, unfocused on the need to deal with both crisis debt and sustainable and affordable future payments and lacking in a strategy to ensure coverage over time.

Therefore StepChange Debt Charity broadly welcomes the proposals set out in this consultation as an opportunity for Ofgem to help the development of advice services supporting people facing or at risk of fuel debt and fuel poverty. Our answers to the specific consultation questions are set out below.

## Question 1: Do you agree with our objectives for the allocation of voluntary redress? If not please explain why.

StepChange Debt Charity broadly agrees with the primary objective set out in paragraph 2.3 of the consultation. Targeting funding to maximise long term benefits for energy consumers is a sensible starting point. However we would suggest that some more detailed definitions for key points in the objectives set out in paragraph 2.4 will be needed to ensure that this primary objective is met. In particular we would highlight the following:

- Ofgem should further specify the areas of consumer harm that funding would aim to address. This would help charities and trusts that might be interested in bidding for funds. It would also help ensure any funding has a strategic impact on the problems vulnerable energy consumers face.
- Ofgem should give further guidance on the definition of consumers in vulnerable circumstances. StepChange Debt Charity would urge Ofgem to ensure that financial vulnerability (consumers experiencing fuel debt, or vulnerable to fuel debt) is included in any definition of vulnerable situations.
- Further guidance on how allocation decisions would be made and how *maximum benefit* assessed would help charities, trusts and other organisations to bid for funding.

We welcome the recognition that the allocation and administration of voluntary redress payments should not create undue burdens on firms or charities.

## Question 2: Are there any additional objectives or criteria we should consider when making a decision on our forward approach to voluntary redress? Are there things our approach should definitely include or absolutely avoid?

StepChange Debt Charity would urge Ofgem to consider the following possible additional objectives:

- As outlined above, we believe that the allocation of voluntary redress in enforcement cases can help to develop a strategic capacity to meeting some key support needs for vulnerable energy consumers. So the allocation mechanism might benefit from an explicit objective to developing an on-going capacity to deliver advice and support for consumers facing, or vulnerable to, fuel poverty and fuel debt.
- In light of this, Ofgem might consider how funding from voluntary redress payments might work alongside other funding to achieve this. For instance, the recent government consultation on the *Warm Home discount Scheme* raised the possibility of energy suppliers meeting part of their Industry Initiative spend by contributing to a central pot of funding.

- Ofgem might consider a minimum value of voluntary redress payments that an open bidding process would apply to. This would prevent a disproportionate amount of a small enforcement settlement being taken up with administration of allocation. This would be less of a consideration if all voluntary redress payments were aggregated into a single fund.

Question 3: What are your views on 'Option 1: Current process with enhanced principles'? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider?

Question 4: What are your views on the possible additional principles outlined in 'Option 1: Current process with enhanced principles'? Are there further additional principles that would help meet our objectives?

StepChange Debt Charity would on balance prefer option 2. But we believe that the proposals for option 1 would be an improvement on the current allocation principles. We broadly support all the additional principles outlined at paragraph 4.3. Our specific observations would include the following:

- We broadly support the proposal to link the number of charitable recipients to the size of the redress payment, increasing the diversity of recipients. However we agree that this should not unduly reduce economies of scale or dilute the effectiveness of the funding at addressing key consumer needs. This tension might be in part resolved by adapting a *programme approach* to funding; whereby a proportion of money could be reserved to key strategic needs where economy of scale will be important for maximising benefits, and another portions reserved for smaller specific bids that would focus of diversity of coverage.
- We support the proposal to establish appropriate criteria for judging applications for funding and we support the proposal for monitoring how voluntary redress payments are used. Ofgem should seek to develop both funding criteria and a methodology for monitoring, rather than leaving this to firms. This would ensure consistency and maximised benefits for vulnerable energy consumers.
- If option 1 is followed, then the principle of monitoring should be extended to ensure public validation of the outcomes of funding.
- While we welcome the principle that firms should not benefit from voluntary redress payments, we note that the prospect of some benefit may act as an

incentive on firms to accept a voluntary settlement rather than pay a penalty that would go directly to HM Treasury. We would urge Ofgem to consider how firms will otherwise be encouraged to make voluntary redress payments, so that funding to support vulnerable energy consumers does not inadvertently decrease.

### Question 5: What are your views on 'option 2: Responsibility given to a third party with appropriate expertise? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider?

StepChange Debt Charity broadly supports the proposals set out in options 2. Option 2 would be our preference over option 1, as it could deliver a more independent, transparent, strategic and efficient allocation of voluntary redress payments. We would also point out that giving responsibility to a third party would reduce the burden on the company and the charity or charities receiving funding to design and deliver a project proposal quickly so the close can be closed. Instead the penalty payment can be held by the third party with a project application period to follow.

Within this option our preference would be for the third party administrator to make allocation decisions, as this seems the most efficient mechanism. However we strongly agree that Ofgem should set both general and specific guidance as part of a framework in which allocation decisions should be made.

As stated above, we suggest that Ofgem might suggest a programmatic approach. Key *strategic* needs that are widespread among vulnerable consumers (such as supporting consumers facing fuel poverty and fuel debt) could be dealt with through a specific programme or programme with criteria focused tightly on maximising outcomes. Other programmes may concentrate more on diverse coverage, or other more specific and particular consumer needs. This might allow firms to have an input into some programmes without having significant control over the funding as a whole.

Grouping allocations periodically, coupled with an open and transparent bidding process and clear criteria for funding programmes should provide for an efficient process that could work well for charitable organisations.

### Question 6: How should the costs of the third party associated with allocating redress be funded?

We agree that it will be important to ensure that the costs of using a third party to make allocations do not become disproportionate to the funds being dispersed. A range of 0.5% to 1.5% does not seem unreasonable if this produces an open and

transparent allocation process that matches funds to consumer need in a coherent and strategic way.

**Question 7: Should the company that made the redress payment have an input into the approval of recipients under this option?**

We have no comment in response to the question at this time.

**Question 8: How can we ensure that smaller potential recipients can bid and are not disadvantaged compared to larger potential recipients?**

There is a clear potential tension in allocation policy. Large charities may be able to use economies of scale to deliver outcomes to key vulnerable consumers efficiently, consistently and at the necessary volume to make a strategic difference. Smaller charities may be better tuned into the needs of particular local communities or communities of interest. Allocation criteria could address both these needs either through partnership approaches or by specifying different funding programmes aimed at meeting different needs.

**Question 9: What are your views on this 'Variation on Option 2 – Voluntary redress payments go to a charitable trust set up by Ofgem'? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider, particularly in relation to the DAF model set out above.**

We have no comment in response to this question at this time.

**Question 10: How should the costs of running a charitable trust set up by Ofgem be funded?**

We have no comment in response to this question at this time

**Question 11: What are your views of the idea of using part of the voluntary redress payments to support specific schemes? What are the advantages, disadvantages, risks or costs relating to this idea? What existing schemes could be considered under this approach?**

We are generally supportive of the idea of linking funding from voluntary redress payments to other funding aimed at supporting vulnerable energy consumers where

this adds value or scale to both funding streams. However we would be concerned if voluntary redress payments were used in a way that replaced or reduced statutory funding, or reduced or replaced obligations on energy suppliers to fund industry initiatives.

**Question 12: Which of the options in this consultation do you think should be used and why?**

Our preferred option is options 2, for the reasons stated above.

**Question 13: Should any other options be considered? If so, please provide an outline explanation of your suggested alternative option(s). Please also outline any associated benefits and costs with the alternative options(s).**

We have no comment in response to this question at this time.