Consultation Response

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

Office of Gas and Electricity Markets (Ofgem)

February 2025

dion.tickner@ageuk.org.uk

Age UK
7th Floor, One America Square
17 Crosswall
London
EC3N 2LB
T 0800 169 87 87 **F** 020 3033 1000
E policy@ageuk.org.uk
www.ageuk.org.uk

About this consultation

The total financial value of energy debt and arrears reached £3.82bn in September 2024. Since 2018, when the figure was £1.08bn, the figure has increased by over 350%. Much of this is the result of the energy crisis, which Ofgem estimates to have caused an additional £1.29 billion of debt. For consumers in debt, this creates mounting pressure to cut back on energy usage to unsafe levels, leaving little hope of being able to repay the debt. Many older people are already cutting back to unsafe levels, leaving them at risk of developing or exacerbating existing cold-related health conditions.

Growing energy debt also creates costs that all consumers must pay; a cost which goes towards servicing debt, not directly funding help for those in debt. Energy prices remain high and are not forecasted to drop to pre-crisis levels soon. That is why Ofgem are consulting on a scheme to provide relief for those who built up energy debt during this period. The aim of the scheme is to prevent a further increase in debt costs for all consumers, while providing direct relief for those who can demonstrate that they are unable to repay their debts.

Key points and recommendations

- Age UK welcomes the proposal to introduce a Debt Relief Support Scheme (DRSS).
- The scheme has great potential to inform future policy interventions on energy debt and affordability, so Ofgem should focus on producing clear policy learnings.
- Strict eligibility criteria could exclude struggling households from receiving support. Ofgem should consider allowing for greater flexibility on eligibility under the application-based delivery route.
- Alongside the delivery of this scheme, Ofgem should continue its proposed work to levelise debt-related costs between standard credit and direct debit consumers.
- Matching repayments will not be appropriate for all older consumers. Age UK would like the scheme design to allow for a more detailed affordability assessment for those with high energy needs. Successful scheme delivery is contingent on the effective participation of debt charities. Age UK support their calls for the scheme delivery period to be extended to 12 months or more.

About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

Executive Summary

The case for intervention

Age UK believes that there is a strong case for intervening to address rapidly growing energy debt , and fully supports the implementation of a Debt Relief Support Scheme (DRSS). While older people are less likely than other age groups to be in debt, there is little hope for those who are in energy debt of being able to pay that debt off.

For older people who are not in debt, the growing cost of servicing high levels of overall debt through the energy price cap is another reason for intervention. The costs of energy debt form a significant portion of energy bills. Thousands of pensioners have contacted us to convey their anxiety about how they will make ends meet this winter and stay adequately warm at the same time.

The withdrawal of the Winter Fuel Payment, and the absence of any additional meaningful energy support this winter, means that there are around 2.5 million older people on low incomes who are being forced to ride out this winter with less support available to them. For some, that could mean falling behind on energy bills, as well as being unable to repay historic debt or arrears. For others, extreme self-rationing may seem to be the only course of action to stay out of debt. The creation of a debt relief scheme will go some way to reducing the pressures on those who are in debt, but also for all consumers more generally.

Age UK is also concerned about the rising differential in costs for consumers who pay by standard credit compared to those who pay by direct debit. The cost of servicing debt is the primary cause of the difference between payment methods. The creation of a debt relief scheme may mitigate the likelihood that the differential will increase further, but it will not address the existing gap, nor prevent the difference from continuing to increase over the long term.

As a result, Age UK would like to see Ofgem resume its work towards levelising debt related costs between standard credit and direct debit consumers. This work should happen alongside the work to deliver this scheme.

Minimising the risk of under-delivery

In terms of the practical challenges of delivering a scheme, Age UK have concerns over three areas which could mean the scheme has a lower than anticipated impact:

1) While Age UK recognises and supports the need for clear eligibility criteria to avoid moral hazard, it is vital that the scheme does not exclude households in need of support through the implementation of stringent eligibility criteria. According to the impact assessment of the DRSS, there is a clear risk that, even under the broadest eligibility criteria under Arm 3, the scheme could result in less than half of the £1.29bn of debt and arrears built during eligibility period being cleared.

2) Under the automatic (supplier) route for support, there is a possibility that many consumers could qualify for repayment matching support but not write-off support. Since eligibility is based primarily on income rather than energy need, some vulnerable consumers with high energy needs could be forced to forego support if they are unable to afford a repayment matching arrangement which is offered to them.

3) Age UK believes that the success of this scheme will require delivery support from participating debt charities. To enable those organisations to facilitate the delivery of the scheme, Age UK supports their suggestions of a longer delivery window, perhaps of 12 months, to mitigate volume risk.

Age UK believes the right approach would be to allow for those who qualify for repayment matching under the automatic route to appeal for a full write-off via the application route. Under the application route, a more thorough assessment of whether a write-off is needed could be completed. Provided that a participating CGC has provided a proper assessment of the consumer's circumstances, the supplier should be permitted to offer write-off, where it is deemed appropriate, even if the consumer does not meet the established write-off eligibility criteria. Age UK believes that this approach would lead to positive consumer outcomes and provides the best opportunity for the scheme to achieve its aims and objectives.

Consultation questions

Q1. Do you agree with our case for change?

Yes, Age UK agrees with the case for change. Supplier-led approaches to alleviating the growing debt problem are not delivering the outcomes that vulnerable consumers need. Without intervention, debt and arrears are likely to continue rising, a cost that is shared by all bill payers. However for those who are in debt or arrears, the impact is much greater.

As highlighted in the case for change, leaving consumers with high levels of problem debt and arrears can increase the likelihood of debt enforcement action alongside the ongoing harms associated with high levels of energy debt. This includes self-rationing and self-disconnection which impacts the physical and emotional wellbeing of consumers and has wider impacts on household expenditure.

Intervention is needed. It is needed to help the consumers in debt, but also to address concerns over growing energy debt and the impact that it has on all consumers. But as a one-off intervention, the scheme will not go far enough to prevent conditions from reaching the same level as they are now. Energy debt has been persistently growing. Its growth has primarily been driven by high energy costs, as well as macroeconomic conditions. These conditions remain in place, meaning that consumers will continue to struggle to afford their energy.

Age UK welcomes Ofgem’s efforts to work with Government to tackle energy unaffordability. It’s Age UK’s view that affordability intervention is crucially important for reducing the number of consumers living in fuel poverty, and the associated (growing) costs that all consumers face with regard to servicing energy debt.

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

Yes, since energy prices are due to remain high until the end of the decade, Age UK believe the introduction of a debt relief scheme will provide necessary support for households who have accrued debt and arrears over the period of the energy crisis. Though the scheme will inevitably be limited in how much support it can provide, the benefits of intervening, compared to a “do nothing” approach, are clear.

But it is also clear that the scheme will not reflect the unfair difference in costs between direct debit and standard credit customers. Age UK would like to see Ofgem resume its work towards levelising debt related costs between standard credit and direct debit consumers. This work could happen alongside the work to deliver this scheme.

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

Age UK understands the intent from Ofgem to design a scheme which avoids perverse incentives for suppliers and consumers. Generally, Age UK agree with the principles of avoiding perverse incentives, minimising risk, ensuring fairness and consistency, as well as making sure that support is targeted and delivered in a timely manner.

To achieve the aims of the scheme, the proposed approach will focus on debt and arrears accrued since the start of the energy crisis and require consumers to demonstrate that affording energy is a challenge. In doing so, the relief that this scheme can provide to indebted consumers will be limited.

The case for change highlights that a supplier-led approach to alleviating the growing debt problem is not delivering the outcomes that vulnerable consumers need. The energy crisis exacerbated this issue, but the financial value of debt and arrears has been persistently growing since before this time.

In Age UK's experience, consumers with severe affordability challenges can have diverging approaches to how they consume energy, with some choosing to self-ration while others will use what they need even if that results in falling behind on energy bills. For consumers in persistent debt, including debt which accrued before the crisis, this scheme may not provide sufficient support to allow them to clear those debts.

Provided that severe affordability challenges are demonstrable, consumers with persistent debt should receive support for debt accrued outside of the crisis period. Age UK believes this would not risk creating perverse incentives for consumers, since consumers in persistent debt are generally able to demonstrate an inability to afford their ongoing consumption. The benefits of clearing debt and arrears accrued pre-crisis, for these consumers, are the same as clearing only debt and arrears accrued during the eligibility period.

If it is not possible to provide support for such debt through this scheme, Age UK would like Ofgem to focus on how the DRSS can inform future policy interventions, so that policy analysis can account for a more accurate estimation of costs, benefits and drawbacks associated with intervention.
The kind of learnings that Ofgem should focus on producing are:

- The extent to which costs that suppliers claim through the bad debt allowance can be netted off from the costs of delivering debt support.
- The impact of debt intervention on default tariff costs paid for by all consumers
- Impact on self-rationing and self-disconnection
- The value of debt intervention for energy suppliers – including the value of voluntary contributions
- The impact of debt affordability on consumer engagement – and consumers' ability to stay out of debt.

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

Age UK agrees that the scheme should aim to reduce overall debt and reduce the balance on customer accounts. In doing so, we agree that this may lead to improvements in the culture of debt management within the energy sector and help to build relationships bewteen financially vulnerable consumers and their energy suppliers.

In terms of the objective to reduce, or avoid an increase in, the future debt allowance as compared to the baseline of not intervening, Age UK believes that the creation of a relief scheme will achieve this objective.

However, during the intended scheme delivery period of summer/autumn 2025, suppliers will be reporting on debt accrued during this winter. Due to recent increases in the energy price cap, and the likelihood that prices will remain high, Age UK expects that many older people will continue to struggle to afford their energy. Energy support for financially vulnerable consumers this winter is insufficient, especially because of changes to eligibility for the Winter Fuel Payment. Age UK have heard from thousands of pensioners who are deeply anxious about how they will make ends meet this winter and stay adequately warm at the same time. The consequence is that debt will continue to build, potentially at a faster rate than debt will be reduced via scheme funding.

Compared to the baseline of not intervening, the scheme may mitigate increases to the debt allowance. But without affordability intervention, Age UK does not believe that the scheme will sufficiently reduce the differential between payment types in the price cap.

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

Yes, provided that suppliers are sufficiently resourced from the beginning of the scheme to process eligibility for their consumers.

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

Age UK would prefer an approach that prioritises proportionate support, instead of flat rate support. Based on the impact assessment analysis, it is unlikely that the scheme will be at risk of over delivery in terms of support exceeding £1.29bn.

Under the broadest option for eligibility that is being considered at this stage, which is households' income under £21k OR eligible under the WHD plus criteria, support delivered is expected to be around £550mn. There is therefore plenty of scope for ensuring that eligible consumers receive a proportionate amount of support, rather than a flat rate level of support which may not go far enough to support some consumers.

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

Age UK prefer delivery option 1, which proposes that the scheme would be implemented through supplier delivery with oversight from Ofgem. This option has the advantage of speedier delivery.

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

Age UK does not have a strong preference for funding options but would like to highlight that the success of this scheme will depend on adequate support from FCA regulated debt charities. To enable those organisations to facilitate the delivery of the scheme, it is vital that they receive adequate resources in advance of the scheme delivery, to ensure they can tackle the additional demand for their services that the scheme will inevitably produce.

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

Age UK supports the premise that consumer debt that is provisioned for as “bad debt”, and therefore accounted for through price cap allowances, should be written off on customer accounts, and not just suppliers’ books. It would be unfair to bill payers for suppliers to be able to collect funding for bad debt through the Debt Relief Support Scheme (DRSS), which has already been recovered through cap allowances.

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

As mentioned above, Age UK supports the intention to account for debt which has already been provided for by historical cap allowances. With regard to the approach, Age UK would like to see the establishment of an enduring process for understanding the amount of bad debt that has been provisioned for compared to levels of debt write-off on consumer accounts.

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

Repayment matching is an effective form of debt support, which helps to foster better relations between consumers and their supplier. Age UK therefore supports the use of both repayment matching and write-offs in the scheme, with support being delivered according to evidence about a consumer’s ability to repay their debt or arrears. In some cases, repayment matching won’t be the right approach for a consumer. Regardless of income level, there are several factors that determine a consumer’s ability to make repayment contributions. For example, their ability to afford ongoing energy costs and whether they are behind on other priority bills.

<u>Eligibility for debt matching support</u>

The success of delivering support through debt matching is contingent on a proper assessment of a consumer’s ability to afford their ongoing consumption as well as their income and expenditure information. Assuming there are strict dividing lines between eligibility for write-off, versus eligibility for debt matching, many consumers with an income that qualifies them for debt matching support, but not debt write-off, could be forced onto a repayment arrangement that they cannot meet.

Age UK anticipates that this could include people with high energy needs, such as older people. Debt matching is unlikely to be appropriate for all consumers who meet the eligibility criteria, so Age UK would like the scheme design to allow for a more detailed affordability assessment for those with high energy needs. For example, consumers meeting debt matching criteria under the automatic delivery route should be presented with the option to speak with a participating CGC to apply for write-off pending a detailed assessment of their ability to pay.

Practical delivery of debt matching under DRSS

In terms of the practical delivery of debt matching through DRSS, Ofgem will need to consider how debt matching support can be delivered in a timely and fair manner.
As highlighted in the consultation document, the receipt of support through repayment matching schemes usually takes the form of an agreement for several repayments at an agreed level over a set period.

Due to the time-limited nature of the scheme, Ofgem should consider whether to mandate that suppliers' repayment matching contributions should be delivered throughout the period of a repayment arrangement, rather than in the form of a lump-sum (write-off) at the end of the agreed period.

Ofgem should also consider whether repayment matching arrangements established through the scheme should be invalidated in the case of a single missed payment.
Age UK's view is that the scheme should allow for re-assessment of a consumer's affordability in the case of missed payments, with the aim of determining whether the consumer has missed a payment due to changing circumstances or the setting of an unaffordable repayment rate. Consumers who are unable to keep to an agreed repayment plan for good reason, where the repayment plan is tied to DRSS support, should not be excluded from receiving support.

Without such an approach, there are several risks associated with delivery. One is that the benefits of DRSS would not be fully realised several months after the closure of the scheme. Another is the risk that consumers may miss out on receiving support because of changing circumstances, or unaffordable repayment plans being set. There is also a potential risk that that suppliers could claim funding through DRSS, but not pass it on to consumers due to a single missed payment, and the termination of a repayment matching agreement.

The risk of suppliers not passing through DRSS support can be mitigated through the reconciliation processes that is conducted once the scheme has closed. However to reduce the risk of under delivery of support, Age UK would like Ofgem to be clear on expectations for what happens if a repayment matching arrangement is broken, and the process by which DRSS contributions to debt repayment plans will be delivered.

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

Income does not clearly correlate with energy needs. It is therefore important to recognise that setting income-based thresholds for write-off and debt matching may prevent high-usage consumers from receiving proportionate support.

There is considerable risk that income thresholds could either force consumers in need onto unaffordable repayment arrangements or exclude them from support altogether. To mitigate this risk, the scheme could allow for income thresholds to be relaxed under the application route (via CGCs). CGCs could conduct a thorough affordability assessment which would determine the need for write-off, regardless of whether a consumer meets write-off income threshold.

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

With regard to Arm 1 and 2 of the eligibility criteria, Age UK firmly believes that any debt accrued during the eligibility period should be eligible for support, provided that it can be verified that the consumer can demonstrate affordability challenges (Arm 3). This approach is better than applying a minimum threshold for eligible support.

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

Of the listed options, Age UK believe that the “WHD Plus” approach to setting eligibility criteria will lead to the best outcomes for consumers. However, as noted above, this may result in a relatively small amount of debt being cleared compared to the scheme’s aims. This is more likely to be the case if there are strict thresholds for who can receive write-off, and who can receive repayment matching support. Age UK would like to see the scheme adopt a pragmatic approach in which consumers can appeal via the application route to receive a write-off if they feel unable to make repayment contributions.

Age UK also support the use of “Do Not Install” criteria for assessing eligibility to receive support. Consumers who meet the “Do Not Install” criteria are demonstrably vulnerable and face greater risk to their physical and mental wellbeing by self-rationing. Receipt of support through DRSS could reduce the pressure on these households to self-ration, whilst also allowing energy suppliers to recover a greater amount of “unrecoverable” costs.

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

There is considerable risk that income thresholds could either force consumers in need onto unaffordable repayment arrangements or exclude them from support altogether. To mitigate this risk, the scheme could allow for income thresholds to be relaxed under the application route (via CGCs). CGCs could conduct a thorough affordability assessment which would determine the need for write-off, regardless of whether a consumer meets write-off income threshold.

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

Age UK believes that the benefits of clearing a larger portion of debt outweigh the risk of providing support to those who are not in need of assistance, which is likely to be a small number of people. As such, Age UK would, in theory, support the use of indices of deprivation if it is proved that alternative eligibility criteria would only clear a relatively small level of debt. At this stage, it is unclear how indices of deprivation would be used in practice. Age UK would like to see Ofgem explore this option further.

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

Age UK believes that conditionality should not be built into the design of a debt relief scheme, since suppliers are likely to have more opportunity to engage with consumers once support has been delivered. For instance, eligibility for DRSS support may have some overlap for ECO eligibility, as well as eligibility for suppliers' discretionary support packages.