MONEY
ADVICE TRUST

BUSINESS DEBTLINE NATIONAL DEBTLINE WISER ADVISER

Consultation Response:

BEIS Energy bills support scheme

Response by the Money Advice Trust

Date: May 2022

Contents

Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2021, our National Debtline and Business Debtline advisers provided help to over 170,400 people by phone, webchat and our digital advice tool with 1.63 million visits to our advice websites. In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2021 we delivered this free training to more than 1,000 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org.

Public disclosure

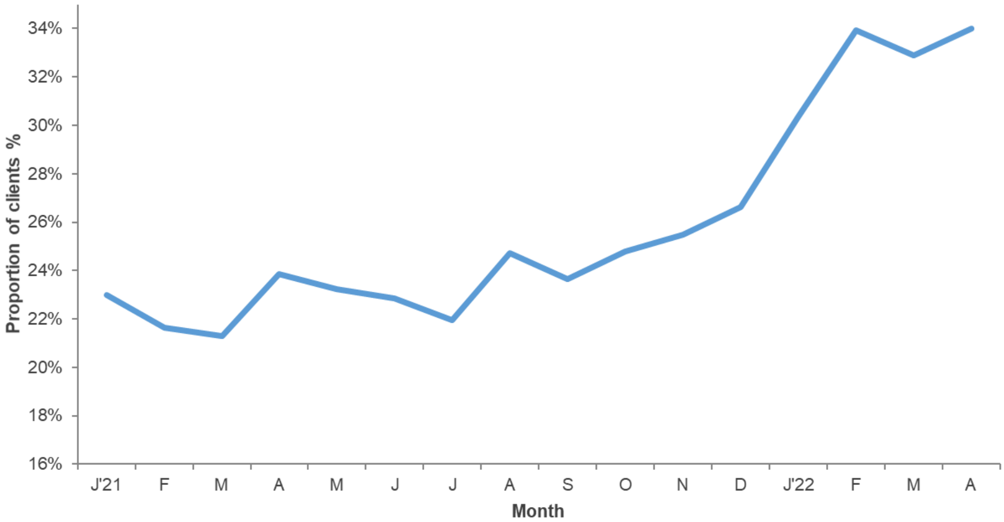
Please note that we consent to public disclosure of this response.

Executive summary

We welcome the opportunity to comment on the proposals for the energy bills support scheme. We have limited our response to the areas that are in our scope as a debt advice charity.

Through our frontline services, we have already seen a sharp increase in people struggling with energy bills. In the first three months of 2022, 32% of callers to National Debtline had energy arrears – up by ten percentage points compared to the same period in 2021 (22%).

Proportion of National Debtline clients with energy arrears (Jan 2021 – April 2022)



Support with energy bills is therefore much needed. This is particularly the case for people on lower incomes, for whom energy bills make up a much larger proportion of their expenditure. Many have little or no flex in their budget to cope with rising costs, having already cut back on all non-essential spending. For example, two in five callers to National Debtline (37%) have a 'deficit budget' – meaning they do not have enough money coming in to cover essential costs, such as rent, bills and food.

Unfortunately, we do not think the support as proposed will be effective in helping people struggling with their energy bills. We have identified a number of difficulties with how the scheme will work in practice. In particular, we would urge BEIS to look again at the proposals for payment of the reduction where a consumer has existing energy arrears.

- ✓ If a customer is already in arrears with their energy bill, then there needs to be a mechanism to allow the reduction to help with their ongoing bills, and not automatically reduce any arrears on the account.

- Unless prepayment meters are set to recover a minimal weekly amount for arrears, and the reduction is applied to ongoing consumption rather than clearing energy arrears, this measure will not have the intended consequences and will not help vulnerable customers with their ongoing energy bills.

- We are concerned more generally that the use of vouchers as a distribution method could mean that vulnerable people could be more likely to fall victim to fraud or theft.

- We believe that the proposed approach to providing the reduction to customers with energy debt is flawed. The proposal to allow suppliers to collect the same set percentage towards energy debts where someone is on an agreed repayment plan could create a perverse incentive for suppliers to hike up payment plans before October 2022.

- Arrears payments within payment plans should be set at a maximum of £1 a month for consumers on low incomes and on certain benefits. In addition, pre-payment meters should be set to collect debt at the same maximum amount of £1 a month.

- This would be a clear and simple rule to administer for suppliers and mean that there could be no temptation to hike up arrears payments on PPMs or direct debits at a time when people cannot even afford their monthly bills.

- We would like to see the definition of "bad debt" strengthened. We believe that the £200 should not be offset against arrears in any circumstances. Arrears should be dealt with separately and the £200 support scheme package ringfenced so that the whole £200 can be used for the purposes of the policy intent; namely to alleviate the pressure on households of their ongoing energy bills over the winter.

We are very concerned that the scheme as proposed is too limited in scope to have a sufficient effect on supporting households during the cost-of-living crisis. We do not believe the proposals go far enough.

The Government should consider more substantial proposals. For example, in terms of the loan scheme itself:

- Make it a grant not a repayable loan for people on benefit-level incomes, people on disability benefits and those who are eligible for the Warm Home Discount;

- Consider an increase in the amount of the reduction for households on lower incomes / benefits;

- Delay the commencement date for repayments of the reduction to start, with an implementation date regularly reviewed in the light of changes in levels in energy bills in the next while.

We would expect that given the predictions that energy bills will stay well above £2,000 for at least the next two years,[1] the Government will need to put extra support in place before the Autumn.

Fundamentally, if the Government is to be effective in avoiding a significant increase in fuel poverty, energy debt and hardship, it must significantly uprate benefits to ensure these keep pace with rising costs and provide more generous support through the Warm Home Discount Scheme this winter.

In addition, there needs to be a robust set of measures from Ofgem put in place to ensure suppliers provide forbearance in arrears collection.

[1] https://www.theguardian.com/business/2022/apr/14/energy-bills-forecast-to-remain-above-2000-in-blow-to-sunaks-loan-scheme

Responses to individual questions

Eligibility

Question 1.a. Do you agree with our approach to how we have considered customer eligibility to the scheme? Yes/No. b. Are there any other household living arrangements we should consider? Yes/No. Please provide any reasoning to support your response.

We are concerned that the approach to customer eligibility is going to leave out potentially vulnerable and low-income households. In particular, there should be support given for mixed residential and business premises. Our Business Debtline clients may be in this situation and are typically low-income small businesses who are struggling to get by. The profile of small businesses who occupy mixed premises is unlikely to be substantially better off.

More callers to Business Debtline are citing mental health problems and there is a rise in those who say income is not enough to cover costs. In 2021 four in five (80%) callers to Business Debtline had a personal deficit budget where they did not have enough coming in to cover essential outgoings.[2] 18% of clients who contacted Business Debtline cited mental health or disability as a main reason for financial difficulty. 15% of clients cited physical illness or disability and 16% said that their business failing was the main reason for their debt problems.

The scheme needs to address the issue of tenants whose energy bills are paid by their landlords as part of their rent. The cost of energy in such circumstances will impact such tenants through higher rent payments, but the tenant will still need the same financial help in another form.

We welcome the recognition of park homes residents who will be required to pay higher rent or service charges as their energy bills will be paid by the park site owner. We are pleased to hear that the government is looking at other options for such residents to receive similar support.

[2] We analysed a sample of 667 National Debtline / Business Debtline clients who contacted the service in Jan – Feb 2021 and for whom we had full income and expenditure data.

Grant Design

Question 2.a. Do you agree with the proposed qualifying date, provisionally set at 23:59GMT on 3 October 2022? Yes/No. b. Given this qualifying date, do you agree with the associated processes linked to it, as set out in the section titled 'Delivering the bill reduction to eligible customers'? Yes/No. Please provide any reasoning to support your response.

It would appear to make sense to have a single qualifying date as proposed to reduce the potential for disputes around customers switching energy providers and deciding which supplier is responsible for that account.

Question 3. Do you agree with proposals that suppliers should provide all eligible customers that they serve on the qualifying date with the reduction as quickly as possible and within six weeks, and by no later than 31 March 2023 for hard-to-reach customers? Yes/No. Please provide any reasoning to support your response.

It would appear sensible to provide eligible customers with the reduction within six weeks as proposed.

Question 4. Suppliers will need to notify their customers in writing once the Scheme reduction has been applied to their account. How could this process be made as effective as possible, while limiting administrative burdens? Please provide any reasoning to support your response.

Question 5. Under what circumstances do you think it would not be reasonably practicable for suppliers to provide the payment? Please provide any reasoning to support your response.

We have not responded to questions 4 and 5 as these are directed at suppliers.

Question 6. Do you agree with the proposals to spread the benefit for Direct Debit customers over six months? Yes/No. Please provide any reasoning to support your response.

We can see that it is logical within the limitations of the scheme to spread the reduction across the six months from October 2022 to potentially reduce direct debits for the winter months.

Question 7. Do you agree with the proposal for pay-on-receipt customers to feel the benefit of this Scheme in their next bill after the qualifying date? Yes/No. Please provide any reasoning to support your response.

Again, within the remit of the scheme this approach would appear reasonable.

Question 8. Do you agree with the proposal for payment card customers to receive the full amount on their next quarterly bill after the qualifying date? Yes/No. Please provide any reasoning to support your response.

The proposal appears to allow the £200 reduction to be allocated to the next quarterly bill in full. This proposal might result in some accounts going into credit. We presume that is acceptable, as long as there is no scenario where a payment card customer could run the risk of losing the credit with their provider.

Question 9. Are you aware of any reasons why payment card customers might need to receive the reduction across more than one bill? Yes/No. Please provide any reasoning to support your response.

We would again raise a concern that a payment card customer should not run any risk of losing the credit on their account with their provider. If this is a possibility, then the scheme should allow for the reduction to be made across more than one bill.

Question 10. Do you agree with the proposal for customers with smart prepayment meters to have the full amount credited to their meters as soon as possible after the qualifying date, where feasible? Yes/No. Please provide any reasoning to support your response.

We are concerned that there may be unintended consequences for customers with smart prepayment meters, if the full amount of the reduction is automatically credited to their meters.

If a customer is already in arrears with their energy bill, then there needs to be a mechanism to allow the reduction to help with their ongoing bills, and not automatically reduce any arrears on the account. If this is allowed to happen, then customers with smart prepayment meters will not feel the benefit of the reduction at all in relation to their ongoing consumption over the winter. The benefit of the scheme will go directly to suppliers instead, with the effect of reducing their bad debt provision.

Unless prepayment meters are set to recover a minimal weekly amount for arrears, and the reduction is applied to ongoing consumption and standing charges rather than clearing energy arrears, this measure will not have the intended consequences.

Question 11. Do you agree with the proposal for the £200 to be issued via vouchers and/or SAMs to traditional prepayment meter customers? Yes/No. Please provide any reasoning to support your response.

We are concerned more generally that the use of vouchers as a distribution method could mean that vulnerable people could be more likely to fall victim to fraud or theft. It is disappointing that there has not been another proposed solution for traditional prepayment meter customers to avoid this extra risk. This is also a proposal that relies upon people in already vulnerable circumstances to be interactive to ensure they receive and cash their vouchers.

We believe that there is a similar problem for customers with traditional prepayment meters. If a customer is already in arrears with their energy bills, then there needs to be a mechanism to allow the reduction to help with their ongoing bills, and not automatically reduce any arrears on the account. If this is allowed to happen, then customers with traditional prepayment meters will not feel the benefit of the reduction either. The benefit of the scheme will go directly to suppliers instead, with the effect of reducing their bad debt provision.

Unless prepayment meters are set to recover a minimal weekly amount for arrears, and the reduction is applied to ongoing consumption rather than clearing energy arrears, this measure will not have the intended consequences and will not help vulnerable customers with their ongoing energy bills.

Question 12. For traditional prepayment meter customers, do you agree with the proposal that vouchers and/or SAMs should be valid until 31 March 2023, in line with the date for reconciling grants provided vs grants delivered? Yes/No. Please provide any reasoning to support your response.

We support the proposal that vouchers or SAMs should be valid for an extended period. We do not necessarily agree that there should be a cut-off date of 31st March 2023 for these to be redeemed. As the consultation paper itself recognises, there will be customers in vulnerable circumstances who fail to redeem the vouchers for a number of reasons such as mental or physical health issues, or reasons of language or literacy. We do not feel it fair to penalise the most vulnerable in society by restricting the time period for redeeming the vouchers. We think that this proposal should be looked at again.

Question 13. Do you agree with the proposal that vouchers and/or SAMs should be provided in five vouchers of £40 each? Yes/No. Please provide any reasoning to support your response.

This proposal appears to make sense, as it allows customers flexibility about when they use the vouchers within their own budget to their maximum benefit. However, we are again concerned that even when divided up into smaller amounts, the vouchers could just be used to pay back arrears on each occasion that the meter is topped up. This would undermine the effectiveness or reason behind the policy proposal in our view.

Question 14. Do you agree that traditional prepayment customers should be able to use vouchers for both electricity and gas (dual fuel vouchers)? Yes/No. Please provide any reasoning to support your response.

We see no reason why this is a problematic proposal and would support maximum flexibility for customers.

Question 15. Do you agree with the proposal for how to cost-effectively encourage traditional prepayment customers to redeem the Scheme vouchers/SAMs? Yes/No. Please provide any reasoning to support your response.

We are concerned that many people on traditional prepayment meters may miss out on redeeming vouchers under the scheme. Government needs to look at how this has worked in practice on previous voucher schemes. In particular, it is vital that as many payment processing providers such as PayPoint, are able and willing to process the vouchers.

We have not seen any concrete proposals in the paper on how to encourage traditional prepayment customers to redeem the vouchers, so it is difficult to comment. The paper states:

"We are exploring ways in which we can support customers to access vouchers through targeted campaigns and messaging."

We have not been able to identify any additional ideas that might help in this regard beyond the usual media campaigns. However, It might be worthwhile to target local authorities, housing associations, GP surgeries and local advice and support agencies to ensure the message is disseminated widely.

Question 16. a. Are you aware of any consumer groups who will not be reached by applying the reduction to electricity accounts? Yes/No. b. Please provide details of which group(s), why they will not be reached and how you would suggest we reach them? Please provide any reasoning to support your response.

As we have said in our response to question 1 above, there will be mixed business and residential premises, residents of park homes and tenants whose energy bills are paid as part of their rent, who will not be reached by applying a reduction to electricity accounts.

Question 17. Do you agree with the proposed approach to providing the grant to customers with different forms of energy debt? Yes/No. Please provide any reasoning to support your response.

We believe that the proposed approach to providing the reduction to customers with energy debt is flawed. The proposal to allow suppliers to collect the same set percentage towards energy debts where someone is on an agreed repayment plan could create a perverse incentive for suppliers to hike up payment plans before October 2022. This would allow suppliers to recover arrears at a faster rate through a greater amount of the proposed reduction going towards arrears. We already see reports from our clients and across the advice sector of direct debits and payment plans being put up by suppliers to an unaffordable amount. This may be legitimate in some cases, but may also reflect some energy suppliers inflating estimates of energy use and setting recovery rates for debt at an unreasonable level.

This trend has been identified by Ofgem who has now commissioned a series of Market Compliance Reviews from suppliers. The Ofgem chief executive letter of 14th April 2022, "Time for suppliers to improve standards for energy consumers"[3] states as follows.

"Ofgem collects and reviews a range of metrics directly from suppliers, in addition to information from consumer groups, NGOs and members of the public, and this has highlighted a series of issues which we find concerning and are investigating further. For example, concerns have been raised that some suppliers may have been increasing direct debit payments by more than is necessary, or directing customers to tariffs that may not be in their best interest. We have also seen troubling stories about the way some vulnerable customers are being treated when they fall into difficulties."

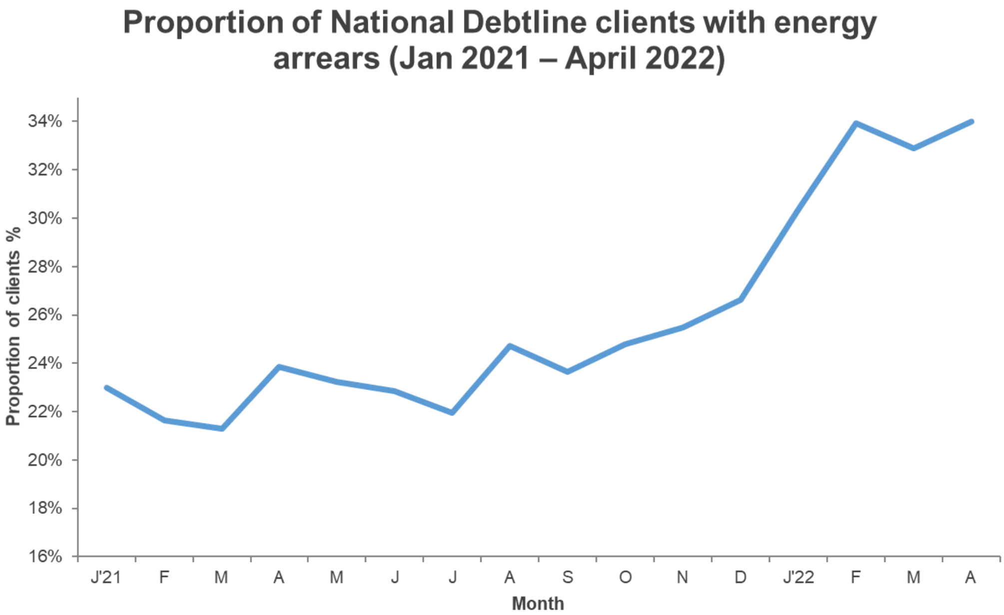
This development does not suggest Ofgem has full confidence in the way suppliers are treating vulnerable consumers in energy debt or that companies are fulfilling their license conditions. The letter goes on to say that the review will:

"include stricter supervision of how direct debits are handled, how much they are holding in customer credit balances, and ensuring companies are held to higher standards for overall performance on customer service and protecting vulnerable customers".

At National Debtline, and Business Debtline, we are helping an increasing number of people with energy arrears.

- ✓ Energy arrears are now the most common type of debt among callers to National Debtline, followed by council tax and credit cards.
- ✓ In the first three months of 2022, 32% of callers to National Debtline had energy arrears – up by ten percentage points compared to the same period in 2021 (22%).

[3] Time for suppliers to improve standards for energy consumers | Ofgem



- As of April 2022, 1 in 5 (21%) of callers to our Business Debtline service – which supports self-employed people, such as sole traders – had energy arrears.

- Nearly two in five callers to National Debtline (37%) have a 'deficit budget' meaning they do not have enough income coming in to cover their essential costs – and this figure is likely to increase.

Our latest briefing,[4] based on a poll of more than 2,000 adults, shines a spotlight on the financial challenges UK households are already facing and the difficulties that lie ahead for many more as the cost of living continues to rise.

In the last three months:

- **71% of UK adults** said they had seen an increase in their energy bills.

- **12% of UK adults** – equivalent to 6.3 million people – said they had gone without heating, water or electricity due to the rising cost of living.

- **Over a third (35%) of UK adults** had to use credit to pay for bills or essentials, because they did not have any other way to pay for them. This is equivalent to 18.5 million people.

The research also revealed that many households are already under huge pressure:

- **Just 20%** of UK adults said they feel prepared to deal with rising costs.

- Over 1 in 5 UK adults (22%) – equivalent to 11.6 million people – say they **worry about money every day**. This rises to 34% for people receiving welfare benefits.

- Over 1 in 10 (12%) – 6.3 million people – say they **regularly lose sleep** worrying about rising costs.

[4] Collision_course_-_Money_Advice_Trust_briefing_-_March_2022.pdf (moneyadvicetrust.org)

- ✓ **Over a third (34%) of UK adults say they have already cut down on all non-essential spending,** to deal with the rising cost of living. This raises significant concerns about how people will cope with further price rises and pressure on incomes in the coming months, and reveals how little flex many people have in their budgets.

Looking ahead, in the next three months:

- ✓ **1 in 5** UK adults (19%) expect to have to borrow money to pay for essentials.

- ✓ **17%** expect to seek help from their energy provider, local authority or other creditors.

- ✓ **15%** of UK adults think they will need to seek out advice about debt issues as a result of the rising cost of living.

Ability to Pay Principles were incorporated into the Ofgem Standard Licence Conditions in December 2020 and are now a requirement for energy suppliers.[5]

This requires suppliers to understand and to set *"repayment rates based on ability to pay" and "proactively exploring payment amounts and payment methods which are appropriate to the individual circumstances of each customer".*

However, given the extent of the cost-of-living crisis in household bills, and the concerns that suppliers are not fully taking into account individuals' circumstances into account when working out ability to pay back energy arrears, we want to see the principles strengthened. This should take the form of new binding rules that are operative on a temporary basis with a review.

Amongst other provisions, arrears payments within payment plans should be set at a maximum of £1 a month for consumers on low incomes and on certain benefits. In addition, pre-payment meters should be set to collect debt at the same maximum amount of £1 a month.

Not only will this help to alleviate the problems with paying ongoing bills for consumers during the crisis, but will mean that for the purposes of the scheme, all the proposed reduction would benefit the consumer by being credited to ongoing bills, rather than arrears. This would be a clear and simple rule to administer for suppliers and mean that there could be no temptation to hike up arrears payments on PPMs or direct debits at a time when people cannot even afford their monthly bills.

[5] Ability to Pay - Standard Licence Condition 27.8A
https://www.ofgem.gov.uk/sites/default/files/docs/2020/10/notice_of_modification_-_self-disconnection_and_self-rationing_-_electricity.pdf

Question 18. Do you agree with this definition of bad debt? Yes/No. Please provide details of when customer debt would be classified as bad debt and how this is subsequently treated by their energy supplier.

We have concerns with this definition of bad debt.

"Bad debt is defined as the unrecoverable debt that suppliers intend to write off."

We do not think this definition is robust enough or sets out parameters as to how a supplier concludes the debt is unrecoverable or that they should therefore write it off.

Unless there are clear rules in place that set out when a debt should be considered "unrecoverable" then the temptation will be for suppliers to offset the £200 against any outstanding debt before it is classified in this way. We do not see on the current definition, how there would be any grounds for consumers or their advisers to argue against this and claw back the £200 to help pay for their ongoing bills.

We completely agree with the proposal in the paper that *"bad debt should be dealt with separately between the supplier, customer, and other relevant parties"* but do not think that the current definition of bad debt gives Ofgem the power to define which elements of the bill should be treated as bad debt and therefore dealt with separately.

We believe that the £200 **should not be offset against arrears in any circumstances.** Arrears should be dealt with separately and the £200 support scheme package ringfenced so that the whole £200 can be used for the purposes of the policy intent; namely to alleviate the pressure on households of their ongoing energy bills over the winter.

We strongly urge BEIS and Ofgem to put in protections against suppliers crediting the support to existing arrears, however defined. Ofgem should ensure that their new rules protect against suppliers using the support scheme against their arrears book.

Question 19 to question 46 of the paper

We have not responded to these questions as they appear to be directed at suppliers.

For more information on our response, please contact:

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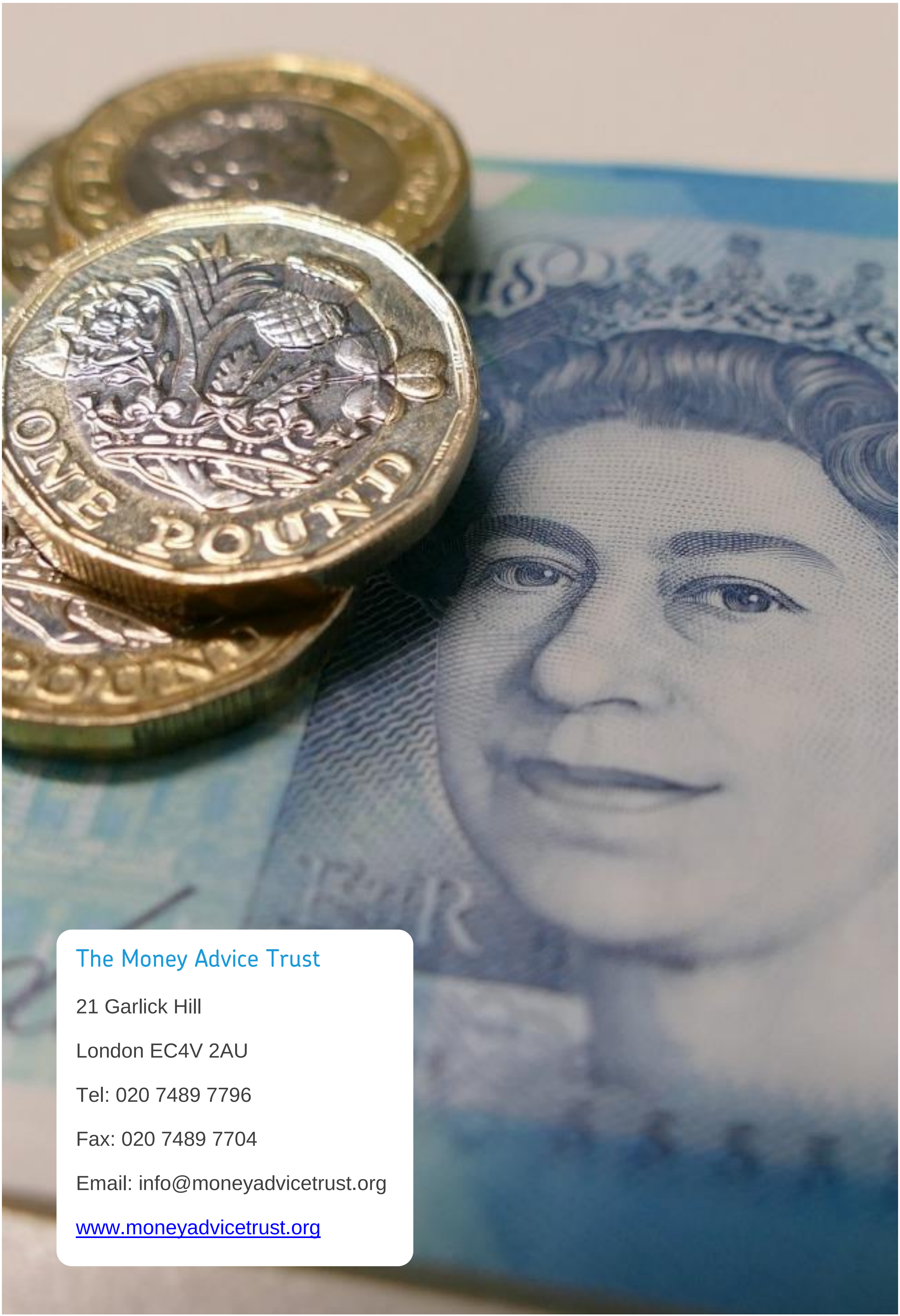

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