MONEY ADVICE TRUST

BUSINESS DEBTLINE NATIONAL DEBTLINE WISER ADVISER

Consultation Response:

Ofgem: The case for a debt relief scheme

Response by the Money Advice Trust

Date: February 2025

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Introduction

About the Money Advice Trust

The Money Advice Trust is a national charity with a mission is to help prevent financial difficulty and remove problem debt from people's lives.

The Money Advice Trust runs National Debtline and Business Debtline, which provides free, independent, expert debt advice to individuals and small business owners across England, Scotland and Wales. In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK.

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.

Summary of key points

We fully support the introduction of a debt relief scheme, and have called for such a scheme to be put in place through our Help To Repay campaign. We warmly welcome Ofgem taking steps to introduce it and think there is a clear and strong case for why it is needed.

We have summarised our view on the scheme design here, and expanded on this in answer to the consultation questions. We believe it is feasible to deliver a simple but effective scheme to get this much-needed support to households as soon as possible.

Entry routes	• We support the proposal for a primary, automatic eligibility route plus a secondary route via debt advice for those with eligible debt, but who don't meet the automatic 'affordability' criteria. • We believe decisions on whether people who come through the debt advice route are eligible for support should not be left entirely to suppliers' discretion. Instead, there should be some parameters around this to enable consistency and avoid people in the same circumstances getting different levels of support, depending on their supplier. We set out a proposal for how this could be achieved in question 16.
Eligibility arm 1 (level of indebtedness)	• We are not in favour of including a minimum debt level to qualify for the scheme. • This is for a number of reasons including: fairness, simplicity (making it easier for people to understand whether they are eligible and therefore encouraging them to engage) and the fact that even small levels of debt can be difficult for people to manage, particularly where people have a negative budget (as is the case for two in five (43%) people we help at National Debtline).
Eligibility arm 2 (period of debt accumulation)	• We can fully appreciate the rationale for an eligible debt period, given the temporary nature of the scheme. However, we are conscious that this will leave some people in a situation whereby they have been found, based on their current circumstances, to be unable to repay, yet they still owe debt (which may be at a significant level). • We think there is a case for extending the eligible debt period to the end of Q3 2024 given prices have remained significantly above winter 2021/2022 levels and that total energy debt and arrears continued to grow at the same rate during this period (see question 20 for more detail, where we've also set out other options Ofgem could consider for helping households in this situation).

Eligibility arm 3 – affordability (automatic criteria)	• We believe the best option for the automatic eligibility criteria is an approach based around 'Warm Home Discount (WHD) plus', as set out in the consultation paper. • For the purposes of this scheme, it is vital that the high energy costs element of WHD is removed – to avoid limiting eligibility to too few people - and that eligibility covers all means-tested benefits, to ensure customers in Scotland are also covered. We understand from the initial impact assessment that this means around 1.8 million households should qualify automatically. • Ensuring any customer receiving means-tested benefits would qualify automatically for the scheme is an appropriate and fair way of targeting support. • We also think there is a strong case for disability benefits to be included in the automatic eligibility criteria too. This is because of the greater risk of harm faced by people with a disability or long-term health condition when they are in energy debt, and also the heightened risk of them being in energy debt, often due to essential and higher energy usage needs.
Debt advice entry route	• We support the inclusion of an application route via FCA-regulated debt advice charities, and are keen to play a role in this. Given the need to deliver the scheme as soon as possible, and the temporary nature of it, we think the most suitable way to deliver this is for suppliers to partner with chosen debt advice charities (this may be based on existing referral partnerships, or new ones established for the purposes of the scheme). • It is also vital that there is a route into the scheme for people who are engaging with debt advice independently of the scheme (i.e. those who have contacted us about wider debt issues, rather than contacting us off the back of contact from their supplier about the scheme).
Debt advice entry route- funding requirements and risks	• The exact funding implications for the debt advice route depend on which eligibility criteria is chosen for the automatic route, and the expected take-up of people in the application route, but we would be happy to have further discussions with Ofgem on this, to provide more detailed information on potential costs (see question 12 for more information). • To enable this route to be delivered, we would need funding certainty in advance to set-up the additional capacity required. As proposed in the consultation document, Ofgem could pre-approve a level of funding, allocate this to suppliers based on their expected number of customers taking-up the application route, and suppliers then allocate this out to debt advice partners. • It will also be important that the 'risk' on numbers sits with suppliers, rather than the debt advice charities. For example, debt advice charities will need to invest a certain level in setting up the capacity to

	meet the expected numbers agreed with suppliers / Ofgem. It will then be up to the suppliers to ensure this level of referrals into the debt advice charities. • Further information on how we see the debt advice route working, and other funding considerations, are set out in questions 12 and 23.
Type and level of support	• To ensure simplicity of the scheme, we think people who qualify via the automatic route should receive debt write-off. Building debt repayment matching into the automatic eligibility cohort would make the scheme too complex to deliver in the timeframe, and also relies on all suppliers taking a consistent and appropriate approach to ability to pay, something that evidence suggests may not always be the case. • Instead, we think repayment matching could be an option for people entering the scheme via the debt advice route (alongside the option of full debt write-off for those who need it). This is because these customers would have had an independent assessment of what, if any, level of repayments they can afford. Parameters could be put in place to determine who might be eligible for full write-off and who is more likely to need repayment matching (see question 16 and 17 for more detail). • In our view, customers should receive 100% debt write-off. According to the impact assessment, fully writing off the debt of the 1.8 million households who would qualify automatically through a WHD plus approach (means-tested benefits) would cost £438 million, well within the scheme funding parameters and leaving additional funding space to write-off debt for customers identified under the secondary application route.
Awareness raising and reducing scam risk	• The scheme should have a clear name and branding, backed by Ofgem (e.g. 'Help to Repay') that all involved (suppliers, debt advice charities, Ofgem) can use. This is to support awareness of the scheme and encourage engagement – something that is particularly key for those eligible under the secondary route. • Ofgem should work with suppliers to ensure as many people as possible access support through the scheme, up to the full proposed funding package of £1 billion. • Ofgem should take all reasonable steps to reduce risk of scams linked to the scheme (working with suppliers, debt advice charities and others)
Bad debt allowances	• We fully support Ofgem's proposal that debt for which suppliers have already been compensated through previous bad debt allowances must be written-off on customers' accounts. It is vital that Ofgem does not allow suppliers to 'double-claim'.

Responses to individual questions

Question 1: Do you agree with our case for change? AND Question 2: Should we intervene through the introduction of a debt relief scheme?

We fully support the introduction of a debt relief scheme and have long called for such a scheme to be put in place, through our Help To Repay campaign. We warmly welcome Ofgem taking steps to introduce it and think there is a clear and strong case for why it is needed. The unprecedented level of energy prices had led to a significant increase in households struggling with energy debt. Energy debt is now the second most common debt we see at National Debtline, behind only credit cards. Two in five (39%) people we help have energy arrears – a figure that has doubled in the past five years and grown even across 2024 (rising from 33% at the start of the year).

As the consultation document sets out, many households with energy debt will struggle to repay this and chasing this debt only risks causing significant harm to households, who may – under pressure to repay – self-ration, borrow money from elsewhere, or fall further behind on other bills. We also strongly believe that the scheme will have benefits for all consumers too, by reducing the bad debt allowance in the price cap which, as the consultation sets out, is currently adding around £70 a year to consumers' bills.

Our previous research has also found strong public support for a debt relief scheme, with three quarters of UK adults (73%) agreeing that people who have fallen into energy debt due to high prices should be given help to reduce what they owe.[1]

We would highlight that, ideally, the debt relief scheme needs to be accompanied by longer-term, targeted bill support to ensure all households can afford their energy bills. We recognise this goes beyond the remit of Ofgem and is an issue for government and public policy. However, without this, it is likely that many households will continue to build up energy debt, and that this will remain a significant problem in the market.

Question 3: Do you agree with the proposed design principles for a debt relief scheme?

Yes, we broadly agree with the design principles and believe the proposals we have set out here for how the scheme should work are compatible with those principles. We also set out suggestions that could help to further meet these principle. For example, adding parameters for the support customers applying through debt advice should be offered (depending on their circumstances), rather than leaving this to supplier discretion, will aid consistency (see question 16).

[1] Research of 2,000 UK adults, weighted to be nationally representative, conducted by Opinium on behalf of National Debtline 25th – 28th April 2023.

Other principles we think Ofgem should have in mind when making final decisions on the design of the scheme are: simplicity, minimising barriers for customers accessing support and ensuring as many struggling households as possible are lifted out of energy debt (which overlaps slightly with objectives for the scheme – see question 4).

Question 4: Do you agree with our key objectives for a scheme?

We agree with the key objectives set out in the consultation. However, we would suggest there should be an additional objective to: Lift as many households as possible, who would otherwise have struggled to repay their arrears, out of energy debt. This should be used to inform decisions on scheme design. Being in energy debt which you cannot afford to repay is an extremely stressful situation for households (our research with adults across the UK found that one in four people with energy debt were regularly losing sleep worrying about it).[2] Lifting households out of this situation, to enable them to focus on trying to stay on track with their ongoing energy liability is an important outcome the scheme should aim for.

Here, we would also highlight the importance of Ofgem having a clear evaluation strategy in place for the scheme from the start. Understanding and evidencing the outcomes the scheme delivers for eligible households and for wider consumers is vital. Such evidence can be used to inform future decisions on tackling debt and when similar initiatives might be needed. This could also help inform suppliers' decisions about individual schemes they could offer to their own customers.

Question 5: What are your views on how we could best reduce the lead time between our proposed policy decision on a scheme and introduction of a scheme, balancing this with robust audit and readiness assurance processes?

We support the aim of getting the scheme in place as soon as possible, given the high level of need among potentially eligible households. As set out throughout this response, we believe the scheme can be kept as simple as possible to enable timely implementation and we support a pragmatic approach which aims to design the best possible scheme, without getting derailed by trying to make it perfect. We would support Ofgem bringing together suppliers, debt advice agencies and consumer groups to work through any remaining details and practicalities as soon as possible following the consultation – for example through workshops and meetings.

We would also note that the sooner Ofgem can take decisions on key elements of the scheme, such as automatic eligibility, and provide clarity on this to debt advice agencies and suppliers, the sooner these organisations can develop and implement plans to deliver the scheme.

[2] Nationally-representative research conducted by Opinium for the Money Advice Trust, sample size 2,000 UK adults, fieldwork conducted 17-20 October 2023.

Question 6: Do you agree our proposals in relation to a scheme time limits for a debt relief scheme?

We acknowledge that the scheme is time limited. However, we would suggest that the timeframes proposed in the consultation may be too short, and would support a longer timeframe e.g. 12 months. This is particularly important in relation to the debt advice route, to enable people time to seek debt advice and to smooth, wherever possible, the demand on the debt advice sector.

We can see the rationale for then having a discretionary period after the cut-off for applications, for final processing and for applying the support to customers' accounts. We would also flag that there would be a period after the scheme closes whereby people on the repayment matching element are still completing their repayment plans and receiving support through the scheme – this will need to be worked into any timeframes, including for the audit process (see question 16 for more detail).

Question 7: What are your views on the type and level of support that could be provided by a debt relief scheme?

We think the most effective option is for those eligible automatically to receive full debt write-off. Repayment matching should be considered as an option for customers coming through the debt advice route, alongside write-off for those who need it. We set out detail on how this can work in our answer to questions 16 and 17.

For customers receiving debt write-off, we would like to see them receive support at 100% write-off. The focus should be on lifting households out of debt wherever possible. Applying proportionate support is too complex and would be challenging to implement, as well as confusing for customers. If means-tested benefits and disability benefits are used for the eligibility criteria (see question 21) then this is a strong proxy for people being unable to afford to repay, so we see no argument to offer less than 100% write-off. According to the impact assessment, fully writing off the debt of the 1.8 million households who would qualify automatically through a WHD plus approach (means-tested benefits) would cost £438 million, well within the scheme funding parameters and leaving additional funding space to write-off debt for customers identified under the secondary application route.

Question 8: 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)?

To ensure the scheme can be delivered as soon as possible, and to keep administration costs down, we would be happy with delivery option 1. As the consultation acknowledges, Ofgem would need to put processes in place to ensure suppliers were properly identifying and applying support, and doing all they can to ensure people eligible for the scheme access it.

We think our proposals to add parameters around eligibility through the debt advice route (see our answer to questions 16 and 17) can help with some of this, as it reduces suppliers' discretion and any inconsistency of approach.

We recommend that Ofgem take a proactive approach and collects, at the commencement of the scheme, the number of eligible customers / accounts by supplier, for each of the two routes (automatic and application). Ofgem should then require suppliers to provide them with regular data (ideally monthly) on how many customers / accounts have had support credited to them. Ideally this data should also be published. This data should be regularly monitored and reviewed, to assess take-up levels, so that Ofgem can take action, or direct suppliers to take action, if take-up is not progressing as expected.

Question 9: Do you have any views on the audit options presented?

We do not have a strong view on which audit approach is taken. We recognise the importance of an effective audit process, given funding for the scheme is coming from customer bills. However, we also think this needs to be balanced with getting support onto customer accounts quickly, to minimise delays. The pre-readiness checks set out in paragraphs 4.15 and 4.16 seem reasonable and should then enable support for the automatic group to be applied with a good degree of confidence.

The ex-post audit after scheme implementation also sound sensible, including on a sample of customer accounts. This feels more practical than audit option 2, which could add significant costs and delays to the process, although we recognise it would give greater reassurance around the support provided. It arguably may be sufficient to do post-audit checks through robust random sampling, but we do not have a strong view either way between option 1 or 2.

Question 10: Do you have any views on how the supplier funding claims process should work under audit option 2?

We cannot comment in detail on how audit option 2 could work. The most important thing with any audit process is designing a system that enables high confidence that support is being applied quickly, but with the least impact on getting support onto customer accounts.

Question 11: Are there any other considerations for the delivery mechanism for a debt relief scheme we have not explored?

We have no further comments on this to add at this stage.

Question 12: Are there any other financing or administrative considerations for your organisation that we have not considered as part of Chapter 4 or the initial Impact Assessment?

This answer should be read with our answer to question 23, which sets out how we see the debt advice application route working. We fully support the inclusion of this route and are keen to play a role in delivering it. The exact funding implications depend on what eligibility criteria is chosen for the automatic route, and the expected take-up of people in the application route. We would be happy to have further discussions with Ofgem on this, to provide more detailed information on potential costs.

In the interim, using data presented in the impact assessment we can see that, if a WHD plus approach was taken, around 1.8 million households would be automatically eligible. This leaves 500,000 households with ‘eligible debt’ – of which 50,000 already have a repayment plan in place with their supplier. The resulting 450,000 households may therefore need to go through the application route. We know not all households will take this up. Based on insight into similar supplier-run schemes, but assuming a much higher take-up of this scheme given it is across the whole market and will have much greater promotion and coverage, we estimate a potential take-up of 20%. However, there is a high degree of uncertainty in this and we encourage Ofgem to use data from suppliers on take-up of their own support schemes to inform a best-estimate of take-up.

Assuming a 20% take-up rate, this creates a demand – across the lifetime of the scheme – of 90,000 households accessing via the debt advice route, across the sector. This is challenging but feasible. It will require new capacity to be built up (temporarily) in the sector to meet this demand. To enable this to be delivered, we would need **funding certainty in advance**. We therefore support Ofgem’s suggestion to pre-approve a level of funding (paragraph 6.49 in consultation document). We suggest Ofgem could allocate this to suppliers based on their expected number of customers taking-up the application route, which suppliers would then allocate out to debt advice partners. This up-front funding certainty would allow us to set-up the additional capacity needed, and would also need to factor in the costs (including technology costs) of set-up for any specifical referral mechanisms or data-sharing required.

Given the uncertainty in exact take-up, we recommend that alongside this up-front funding commitment, there is an additional pot of funding (held by Ofgem centrally) that could then be allocated following an early review once the scheme is set-up. If additional numbers are coming through the debt advice route, funding from this route could be drawn down to enable capacity to be grown to meet higher demand.

Other points we’d highlight in terms of the funding of the debt advice application route are:

- The ‘risk’ on numbers needs to sit with suppliers rather than the debt advice charities. For example, debt advice charities will need to invest a certain level in setting up the capacity to meet the expected numbers agreed with suppliers / Ofgem. It will then be up to the suppliers to ensure this level of referrals into the debt advice charities. While we will support suppliers by undertaking awareness raising activity, there cannot be a financial penalty on the debt advice charities if the number of customers does not materialise. (Note: this can largely be mitigated through up-front funding model discussed above).

- Audit costs for debt advice charities will need to be funded.

- It is important that anyone contacting a debt advice charity to be assessed for the scheme is able to get the full benefit of debt advice and the services the charity provides beyond just the completion of the income and expenditure (SFS / CFT) for the purposes of the DRS application. The design of the scheme (and funding) should not do anything to preclude this.

While the consultation talks about covering the costs of the administration element of the debt relief scheme application, there will obviously be a corresponding increase in people seeking full debt advice as part of this. This will place extra pressure on the sector which could likely stretch beyond available capacity. While this wider debt advice will have benefits for multiple sectors, not just energy, consideration should be given to how to support additional capacity beyond just the completion of I&Es for the debt relief scheme, working with the Money and Pensions Service where needed.

Question 13: Do you have any views on the funding options presented, considering the balance between the temporary addition to customer bills against period of recovery?

We recognise there are pros and cons of each approach. Our preference would be for funding to be recovered via network charges, as this enables recovery from customer bills over a longer time period. The most important thing is that the cost of the scheme is recovered in the most distributionally fair way possible, over the longest time period. We also do not favour the cost being recovered through standing charges, given the well-established evidence of the impact of high standing charges on certain groups of consumers. To minimise the impact on customer bills, we would strongly encourage Ofgem to look at other sources of funding to support the scheme, including any existing funds (such as the Voluntary Redress Fund) or other supplier-contribution funds. As set out in our answer to question 14, ensuring that suppliers are not double compensated for debt covered by previous price cap debt allowances will also be important.

Question 14: 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?

It is incredibly important that: a) debt which suppliers have already been compensated for through previous price cap allowances is written off formally on customers' accounts and that customers are aware of this; and b) that suppliers are not compensated twice for this debt write-off. We have long raised concern about the fact that suppliers have been compensated, through customer bills, for debt that they have 'written off' for their own accounting purposes, but that this has not fed through to write-off on customer's actual accounts.

While we cannot comment on the exact detail of the approach Ofgem should take within the audit and funding process to deliver this, we agree this is important and that Ofgem will need to have a strong degree of oversight to ensure this happens. However, we are keen to ensure that this process does not slow down final decisions on, and the implementation of, the debt relief scheme. We recommend Ofgem proceed to implement the scheme as planned and deal with this issue as part of the funding reconciliation and audit process.

We would also ask that Ofgem shares further data as soon as it is available in terms of the potential overlap between proposed eligibility criteria and debt that suppliers have already been compensated for. Should this reveal that a significant proportion of debt has already been covered, then Ofgem should look to use the funding flexibility this releases for the debt relief scheme to expand the help available, including by extending the eligible debt period (see our answer to question 20).

Question 15: 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?

Please see our answer to question 14.

Question 16: Should debt matching be included in a debt relief scheme? AND Question 17: 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?

We think debt matching should be included in the debt relief scheme, but just via the debt advice application route.

Trying to introduce this into the automatic route would be overly complicated. It also relies on all suppliers taking a consistent and appropriate approach to ability to pay, something that evidence suggests may not always be the case. In addition, we believe that, if means-tested and disability benefits are used for the eligibility criteria, then this is a good proxy for affordability and it is safe to assume that most people in this situation will need full debt write-off, rather than having available income to put towards repayments.

Instead, we think repayment matching could be an option for people entering the scheme via the debt advice route (alongside the option of full debt write-off for those who need it). This is because these customers would have had an independent assessment of what, if any, level of repayments they can afford. Introducing repayment matching here could enable more people to access the scheme and would mean households that might otherwise have been stuck in energy debt for years can get out of debt faster. It also supports positive engagement with suppliers, and better longer-term outcomes, as evidenced by data from other similar schemes in water and energy:

- 90% of customers who completed Wessex Water's Restart scheme (debt repayment matching) have gone on to maintain up to date payments of their regular water usage.[3]
- 87% of customers supported through a specific EDF debt write-off scheme in winter 2023 have remained debt free.[4]

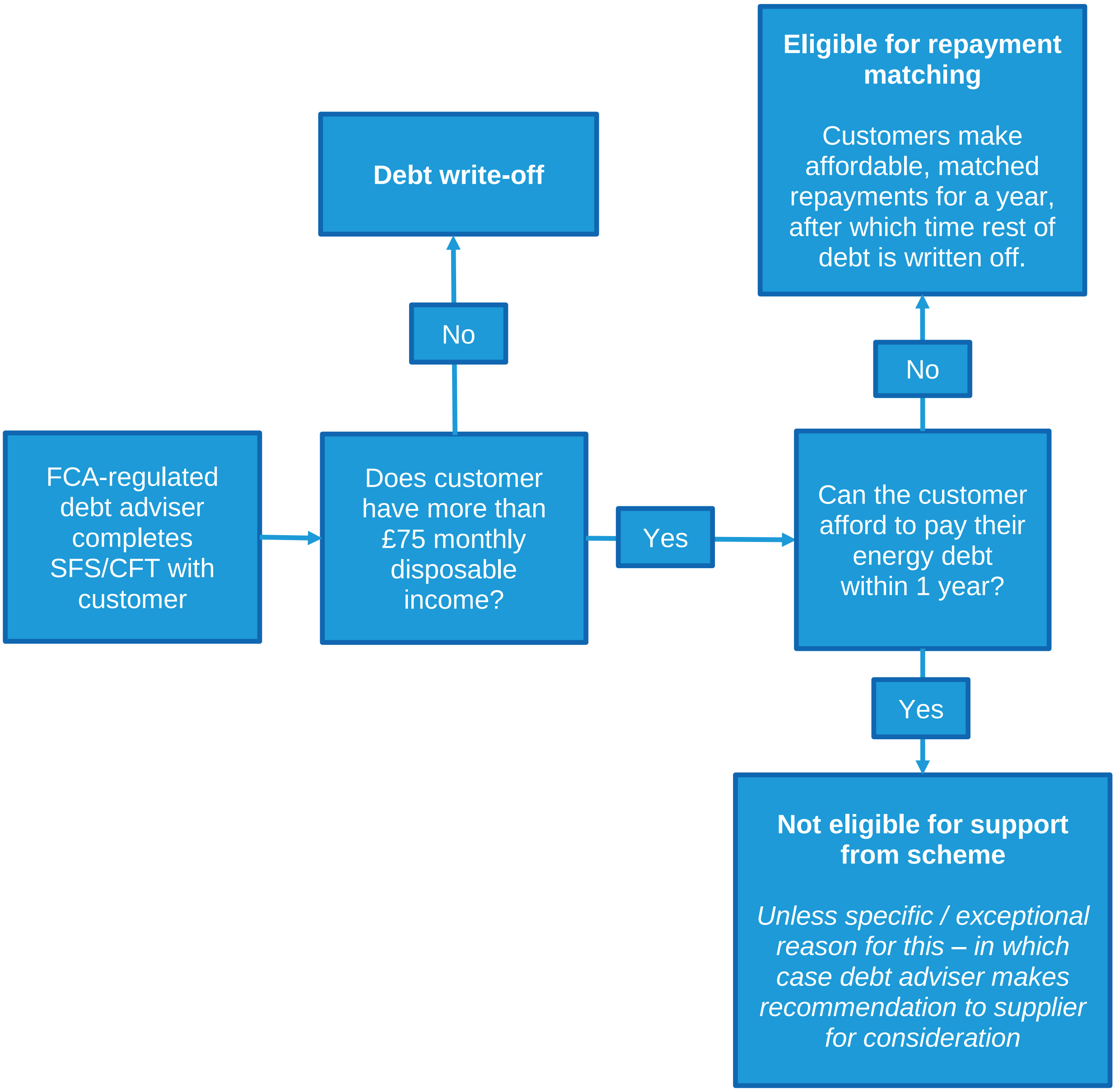
To ensure consistency, we recommend some parameters are put in place so that suppliers do not have full discretion on the type and level of support households receive. This is important to ensure that customers in the same circumstances do not receive different support, depending on their supplier. This could be achieved via assessment of a) the customer's monthly disposable income (after essential costs) and b) the amount of time it would take them to affordably repay the energy debt.

[3] Money and Pensions Service, Working collaboratively with debt advice agencies: A strategic toolkit for creditors.
[4] See: Energy UK, Additional Support for customers

As set out in the diagram, we propose that, if a Standard Financial Statement (SFS) (or Common Financial Tool (CFT) in Scotland), completed by the debt advice charity shows that:

- A customer has less than £75 a month disposable income, they would be eligible for debt write-off.
- A customer has more than £75 a month disposable income, but would take longer than a year to repay their debt, they would be eligible for repayment matching.
- A customer has more than £75 a month disposable income and can afford to repay their energy debt within a year, they would not be eligible for support.

Diagram 1: Proposed eligibility parameters via debt advice application route for write-off and repayment matching



We have proposed the £75 disposable income figure as this aligns with the current eligibility criteria for a Debt Relief Order (offering debt write-off).

We have also suggested that, under the repayment matching route, a customer would make affordable, matched repayments for a year, and then the rest of the debt would be written off. Ofgem could choose not to include this element in the scheme, but the benefits it brings are that households move out of debt more quickly but, crucially, also that repayment matching under the scheme does not continue for multiple years, which would create more complexity for the funding reconciliation and audit process.

In terms of how the actual repayment matching process works, based on evidence around existing best practice in the water sector, and a small number of individual energy supplier schemes, we recommend that:

- Payments are matched on a £1 for £1 basis, and credited to the account after each customer contribution (if the customer pays weekly, it would be reasonable for the supplier to credit the matched payments monthly, but we do not favour a longer lag than this as it reduces the customer's incentive and creates a risk of disengagement).
- Suppliers take a flexible approach if a customer's circumstances change and the repayments are no longer affordable. In this instance, the supplier would need to do an ability to pay assessment (or refer to debt advice for this) and reduce payment or switch the person to full debt write-off, depending on circumstances.
- If a customer misses a payment, the supplier should try and engage them, to understand the reason for the missed payment and amend the plan if needed. However, it is reasonable to set a limit - for example, if a customer misses three months of payments and does not engage with supplier, the supplier can remove them from the repayment matching scheme.

Question 18: Should networks pay approved debt relief scheme claims to suppliers in winter 2025/26, or only later when networks have received the funding via higher network charges?

We have no strong view on this at this time. As set out in question 13, we support an approach that best delivers sustainable funding that can be recovered from customer bills with the least impact (likely over a longer period of time).

Question 19: Over how many years should networks recover the cost of a debt relief scheme – for example, 1, 3 or 5 years?

As set out in our answer to question 13, we support an approach that minimises the impact on customer bills. We therefore favour recovery over a longer period of time. We would welcome clarity on the figures provided in the consultation as Ofgem highlights that the longer recovery period increases the overall cost of the scheme via higher interest charges. However, Table A2.4 suggests that, in a £500m scheme, there is little difference in total cost to customers, and that actually the longer period has a smaller overall impact e.g. customers pay £21 total over 3 years (£7 annual impact x 3) versus £20 total over 5 years (£4 annual impact x 5).

Question 20: 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.

Arm 1 – indebtedness or level of indebtedness

We would strongly support an approach that means customers with energy debt (of any value) are eligible. We are not in favour of a minimum debt level. This is for a number of reasons:

- **Fairness** - to those with lower debt amounts, who may be as in need of support as those with higher debts. It could also be particularly disengaging for customers who meet the other eligibility criteria, but are then told they do not have enough debt to qualify. This is likely to include people who went to significant efforts to minimise the debt they accrued, including by rationing energy usage. For them to then be told they do not qualify as a result sends the wrong message to customers and could lead to them disengaging from their energy supplier.

- **Simplicity** - making it easier for people to understand whether they are eligible and therefore encouraging them to engage.

- **Affordability considerations** - while Ofgem is right to note that larger debts may typically be more difficult to manage, this is not always the case. Even small levels of debt can be challenging for people to deal with, particularly where people have a negative budget. Two in five people we help at National Debtline (43%) have a negative budget, meaning they cannot repay even lower levels of energy debt.

We also have questions about how a minimum debt level would work in practice in the scheme. We would not want to see a situation where people only had their debt written off to the minimum debt level (i.e someone with £1,500 of debt can only have £1,000 of this written off) as this is not only confusing to customers but undermines what we believe should be one of the primary aims of the scheme which is to lift households out of energy debt entirely.

We appreciate there may be an argument that there should be a very low, de minimis debt level compared to the administrative cost per customer, in order to support the cost benefit case of the scheme. This may be feasible, if set at a very low level, although without understanding exact administration costs at this stage it is hard to comment in detail.

Arm 2 – the period of debt accumulation

We can fully appreciate the rationale for an eligible debt period, given the temporary nature of the scheme. However, we are conscious that this will leave some people in a situation whereby they have been found (based on their current circumstances) to be unable to repay, yet they still owe debt (which may be at a significant level). It’s not yet clear what should happen in this situation. Given the supplier will be aware they cannot afford to repay, it would not be reasonable for them to collect or enforce the debt, but nor is it being written off under the scheme. For us, a key aim of the scheme should be to lift as many households as possible out of energy debt completely, as this delivers significant benefits to the household.

We’d be grateful for any further data or analysis Ofgem can provide about the level of debt accrued by eligible households outside of the proposed eligible debt period. This would be helpful in determining the right approach to the eligible debt period.

We appreciate there is not a perfect solution here, so Ofgem will have to choose the most pragmatic approach and there are trade-offs to be made under any option. However, options Ofgem could consider are:

- **Extending the eligible debt period** – Given prices in 2024 have remained around 60% higher than winter 2020/21, we know many people are still struggling to pay and building up further debt. We recognise the moral hazard argument (although we believe any risk of this impacting consumer behaviour is incredibly low) so Ofgem could extend the eligible debt period to the end of Q3 2024. This would mean that the eligible debt period cut-off would still be before Ofgem made any public mention of introducing such a scheme. In addition, we note that the total amount of debt and arrears grew by £0.51 billion between the end of Q1 2024 and the end of Q3 2024 – a rate of 15%. This is a higher rate than debt and arrears grew in the equivalent last two quarters of the current proposed eligible debt period (total debt and arrears grew by £0.39 billion, a rate of 13%, between end of Q3 2023 and end of Q1 2024).[5]

- **Limiting eligibility to the proposed eligible debt period but enabling support to cover debt accrued over a wider period** – In this scenario, a customer would only be eligible if they had accrued debt between 1 April 2022 – 31 March 2024, but they could receive support on the full amount of debt they hold, regardless of when this was accrued i.e. the eligible debt period exists for eligibility purposes, but does not limit the debt on which they can receive support. A cut-off point could still be used if moral hazard arguments were a concern, but this would be closer to the scheme start date than currently proposed.

- **Setting rules and guidance on what suppliers should do for eligible customers with remaining debt** – This could include setting expectations around further debt write-off, paid for by suppliers as part of BAU debt collection / management processes, prohibiting collection or enforcement activity on the debt and other guidance around how customers in that situation should be supported.

- **Running the scheme as proposed but consider re-running it again to cover remaining debt if proven to be successful** – If the scheme proceeds with the current eligible debt period, and it ends up that there remains a significant level of debt sitting with eligible households, then Ofgem should be open to re-running the scheme to cover further debt built up while prices remain high. Here, we would emphasise again the points made in our answer to question 4 on the importance of a clear evaluation strategy to inform future decisions.

[5] Analysis of Ofgem debt and arrears indicators.

Question 21: 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.

As set out in question 16, we think the most appropriate and feasible approach is for everyone who qualifies for the scheme to automatically receive debt write-off (please see our full answer to question 16 for more information and rationale).

We believe the best option for the automatic eligibility criteria is an approach based around 'Warm Home Discount (WHD) plus', as set out in the consultation paper. For the purposes of this scheme, it is vital that the high energy costs element of WHD is removed – to avoid limiting eligibility to too few people - and that eligibility covers all means-tested benefits, to ensure customers in Scotland are also covered. We understand from the initial impact assessment that this means around 1.8 million households should qualify automatically.

Ensuring any customer receiving means-tested benefits would qualify automatically for the scheme is an appropriate and fair way of targeting support.

We also think there is a strong case for disability benefits to be included in the automatic eligibility criteria too. This is because of the greater risk of harm faced by people with a disability or long-term health condition when they are in energy debt, and also the heightened risk of them being in energy debt, often due to essential and higher energy usage needs. This is further exacerbated by the extra costs many disabled households face – with research by Scope finding that disabled households need an extra £1,010 a month to have the same standard of living as non-disabled households.[6] Our own research with adults across the UK found people who have a disability or long-term health condition were 7 percentage points more likely to be behind on their energy bill than the population as a whole (17% to 10%).[7] Ofgem's data, set out in the consultation, also highlights that customers in debt are significantly more likely to report having a disability or long-term illness (44.2%), than customers who are not in debt (29.5%). Finally, given Ofgem's assessment that the scheme correlates to the Public Sector Equality Duty for disability and age, it would follow that including disability benefits in the automatic eligibility criteria, given the significant evidence of heightened risk of debt among this group, would be an appropriate decision for Ofgem to take.

We appreciate this approach requires data sharing to be set up between DWP and suppliers. As set out in our answer to question 27, we appreciate there could be some barriers to this, but the importance of the scheme and the significant customer benefit it will deliver, necessitates working through these wherever possible. We would encourage government, particularly DWP, to do whatever it can to make this happen – and for Ministers to direct resource to this specifically if needed.

[6] Scope (2024) *Disability Price Tag*

[7] Nationally-representative research conducted by Opinium for the Money Advice Trust, sample size 2,000 UK adults, fieldwork conducted 25 – 28 April 2023.

Data matching is the most efficient and robust way to identify customers eligible under this approach. We have seen open banking used to confirm receipt of benefits (via evidence of the that benefit being paid into the account), which could be explored if needed. However, this is likely to be a more complex approach to embed, with greater administrative costs for the supplier and requiring greater involvement of customers. As far as we are aware, CRA data doesn't routinely include income information or data on benefits being received so we are not clear how this could be used to identify or confirm eligibility, unless there are other, specific solutions being developed by credit reference agencies that could work for this.

PPM households

We would also add that consideration should be given to how to best capture people on prepayment meters (PPMs) within the eligibility criteria. While there will be an overlap between people on PPMs and those receiving means-tested benefits, PPM households can be an at-risk group in themselves, and Ofgem has highlighted in the consultation that these are a harder group to reach and target when barriers to claiming support are in place (paragraph 6.4). We would therefore favour exploration of how PPM households could be included and / or targeted within the automatic eligibility criteria.

Having a PPM can, in itself, be a proxy for affordability, given that PPMs are heavily concentrated towards the bottom of the income distribution scale: a quarter of the poorest fifth of English households pre-pay for energy, compared with 1.5% of the richest fifth.[8] PPM users are also more likely to live in social and private renting households, where 38% and 18% of families, respectively, are on PPMs, compared to just 2% of owner occupiers.[9] Ofgem's own data shows that, between Q1 2022 and Q1 2024, the proportion of PPM households in debt to their suppliers grew by 24 percentage points for electricity (from 34% to 58%) and 18 percentage points for gas (from 38% to 56%).[10] Although this has fallen back slightly, one in two gas PPM users (50%) are currently repaying a debt and for electricity PPM users, the figure is 53%.

Households on PPMs also face heightened risk of harm when they are in debt, compared to people on credit meters, given debts are taken each time they top-up and they have limited control over repayments. This puts them at risk of self-disconnection, something that is exacerbated by the fact they cannot spread energy costs across the year. PPM households face a much higher risk of debt tipping them into self-rationing or self-disconnecting in a way that households on other meter types do not face in the same way.

Question 22: What are your views on the proposed application route for eligibility? 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.

We would expect arm 1 and 2 of the eligibility criteria to be the same across both the automatic and application routes (our answer to question 20 sets out our views on eligibility arms 1 and 2). We have set out in more detail in questions 16 and 17 how people could be identified for either debt write-off or debt matching through the debt advice route.

[8] Resolution Foundation (2024) *Paid in full: The perils facing pre-payment energy customers this winter*
[9] Resolution Foundation (2024) *Paid in full: The perils facing pre-payment energy customers this winter*
[10] Ofgem, Debt and Arrears indicators -Proportion of customers repaying a debt to their supplier using a prepayment meter.

Question 23: 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.

We support the inclusion of an application route via FCA-regulated debt advice charities. Given the need to deliver the scheme as soon as possible, and the temporary nature of it, we think the most suitable way to deliver this is as follows:

- Suppliers partner with chosen debt advice charities (this may be based on existing referral partnerships, or new ones established for the purposes of the scheme).
- As set out in question 12, charities would need up-front funding certainty so Ofgem could pre-approve a level of funding to each supplier based on their expected number of customers taking-up the application route, which suppliers would then allocate out to debt advice partner(s) based on bilateral referral agreements.

It is also vital that there is a route into the scheme for people who are engaging with debt advice independently of the scheme (i.e. those who have contacted us about wider debt issues, rather than contacting us off the back of contact from their supplier about the scheme). This is likely to include people from more marginalised groups, who are less likely to engage with their supplier, and therefore a key group who need to be supported through this route.

In addition, customers may not always go to the designated debt advice charity / charities for their supplier.

In both of these instances, people still need to be able to access the scheme – in order to maximise opportunities to get support to eligible households, to promote a positive customer journey and to reduce the risk of duplication. It is therefore important that:

- All energy suppliers accept DRS applications from any FCA-regulated debt advice charity (i.e. the supplier cannot request they go to a different / their chosen debt advice charity to re-complete this).
- Debt advice charities can claim for the costs of these applications, if they are not already being funded for them (i.e. if they do not have a funding / referral arrangement with that supplier as part of the debt relief scheme). This could be done on a cost-per-case basis (agreed with Ofgem in advance).

For more information on funding considerations, including the importance of regular review points on the numbers of customers coming through the application route, please see our answer to Q14.

Eligibility

Ofgem has rightly highlighted the importance of consistency in the scheme. People in the same circumstances should not get different levels of support depending on their supplier. We therefore think that eligibility parameters should be introduced into the debt advice application route.

We have set this out in more detail in our answer to question 16, but essentially means that, instead of being left to supplier discretion, eligibility for support would be determined based on parameters around a) the customer's disposable income and b) the time required to affordably repay the debt. As set out in more detail in question 16, if a Standard Financial Statement (SFS) (or Common Financial Tool (CFT) in Scotland), completed by the debt advice charity shows that:

- A customer has less than £75 a month disposable income, they would be eligible for debt write-off.
- A customer has more than £75 a month disposable income, but would take longer than a year to repay their debt, they would be eligible for repayment matching.
- A customer has more than £75 a month disposable income and can afford to repay their energy debt within a year, they would not be eligible for support.

By utilising the SFS / CFT, Ofgem can be assured that there will be a high degree of consistency in the application route, between debt advice providers. The SFS and CFT are both long-standing, agreed, standardised income and expenditure frameworks accepted by creditors across a range of sectors. Debt advice charities are regulated by the FCA and also overseen by the Money and Pensions Service. For example, at the Money Advice Trust, our National Debtline and Business Debtline services are assessed under the national MaPS Standards and specifically meet the Debt Advice Quality Framework requirements for quality and performance.

Given the priority Ofgem has placed on consistency, we recommend that the application route for the scheme requires the customer to speak to an adviser, rather than to only complete a budget digitally without any adviser interaction. This is the most effective way to ensure check and challenge in creating an accurate and sustainable budget for the customer, to ensure any additional vulnerability or immediate needs are identified and responded to, and to enable the customer to get wider debt advice.

Promotion of application route

While we fully support the application route, it does introduce a barrier for these customers in accessing support. Ensuring the scheme is promoted effectively is therefore crucial. We recommend that:

- The scheme has a clear name and branding, such as Help to Repay, that all involved (suppliers, debt advice charities, Ofgem) can use.
- Suppliers are required to contact customers through a variety of methods (e.g. letter, email, text), complying with customer's communication preferences where possible.
- Suppliers are required to contact customers a certain number of times (including sending reminders if they have not taken up support). To ensure consistency, Ofgem could set a minimum requirement on this.
- Coordinated promotional activity is undertaken between debt advice charities and suppliers (albeit recognising this may cause spikes in demand to debt advice, so will need to be managed carefully).

- Ofgem take a proactive approach and collect, at the commencement of the scheme, the number of eligible customers / accounts by supplier, for each of the two routes (automatic and application). Ofgem should then require suppliers to provide them with regular data (ideally monthly) on how many customers / accounts have had support credited to them. Ideally this data should also be published. This data should be regularly monitored and reviewed, to assess take-up levels, so that Ofgem can take action, or direct suppliers to take action, if take-up is not progressing as expected.

Regarding customers having confirmation of meeting arms 1 and 2 of the criteria, we appreciate what Ofgem is trying to achieve here – particularly in prioritising capacity for people who are eligible, and reducing time spent on completing I&Es for customers who aren't. Suppliers providing confirmation to customers that they are eligible is one part of this, and we would recommend this take place. However, we cannot rely solely on customers receiving this information, or necessarily retaining this / having access to it when they speak to a debt advice charity. We therefore recommend that other methods to check eligibility also be put in place where possible – for example, Ofgem could explore whether suppliers could have a simple online form or portal whereby people can enter their personal or account details and find out if they meet eligibility arm 1 and 2.

Even with these measures, it is inevitable that there will be some customers who come via the debt advice application route, where it has not been possible to establish whether they meet the other eligibility criteria before sending their application across to the supplier. While the steps outlined above should be taken to mitigate this and reduce the number of people in this situation, to avoid it completely is not possible as is likely something that will have to be accepted within the scheme to some extent.

<u>Reducing the risk of scams</u>

As with any scheme of this nature, there is a risk of scams. Unfortunately, this is something we already see in debt advice, with firms impersonating legitimate debt advice charities. There are two elements to counter here: people being scammed by organisations pretending to offer access to the scheme, as well as the risk of people not speaking to a debt advice charity for fear that the scheme is not genuine. Neither of these risks can be eliminated entirely, but we recommend Ofgem convenes suppliers and debt advice charities early to consider how to mitigate these risks as much as possible. Mitigations should include:

- Designing the automatic eligibility criteria to enable as many people as reasonably possible to have support applied automatically (hence our support for an approach encompassing means-tested and disability benefits).

- Clear promotion of the debt advice charities involved (and how customers can check that they are speaking to a legitimate debt advice charity). This information should ideally be included in communications about the scheme, and on Ofgem, suppliers and debt advice charities' websites.

- Including information about the scheme on Gov.uk (as a trusted site), including what to be aware of in terms of potential scams linked to the scheme.

- Intelligence sharing between suppliers, debt advice charities and Ofgem on potential scams identified – to enable swift action to be taken.

Question 24: Do you agree with our proposals for eligibility in relation to closed customer accounts? What administrative challenges may be faced with these proposals and how can these be overcome?

The proposals for how to deal with closed customer accounts seem sensible, in terms of eligible customers being able to receive support on all accounts they have eligible debt on, across different suppliers. We would suggest that this scenario adds to the argument against having a minimum debt level as part of the scheme. This would avoid suppliers having to share data in a situation where someone accrued debt below the minimum amount before moving suppliers and accruing further debt. Removing the minimum debt level and enabling both debts to each supplier to receive support seems the simplest approach to take.

In the final scenario presented "(a consumer accumulated debt and moved properties without notifying the original supplier (new supplier(s), if any, not known), and the supplier has been unable to chase the debt due to the property move)", we recognise there could be an argument for not including these debts, so as not to incentive disengagement in this way. However, we agree with the conclusion in the document that enabling people in this scenario to apply through the debt advice route strikes the right balance. This enables them the opportunity to re-engage and to show if they cannot afford to repay the debt, bringing positive benefits for the individual and for the supplier.

Question 25: 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?

As Ofgem itself acknowledges in the consultation, there is a risk that the scheme is designed in such a way that it covers only a relatively small pool of debt. We would encourage Ofgem to maximise the opportunity they have with this scheme, and the pool of funding, to focus on lifting as many struggling households out of energy debt as possible.

It is therefore welcome that Ofgem is considering how to maximise the opportunity of, and funding for, the scheme, and questioning whether to remove the affordability arm of eligibility altogether. There are arguments for doing so – it would reduce the need for people not automatically eligible to have to take action to access support – a clear barrier. We also agree with Ofgem that the number of households in debt who can afford to repay but are avoiding doing so is likely to be very small. However, the fact the scheme is being funded through customers' bills heightens the importance of ensuring the scheme is targeted, and having no eligibility criteria around affordability raises questions over the inherent fairness of the scheme.

We would therefore argue that a more effective, and fair, way to broaden the debt covered by the scheme would be to extend the eligible debt period (as set out in our answer to question 20) i.e. prioritising targeting households most in need and lifting them out of debt completely where possible. We would encourage Ofgem to model the impact of doing so in terms of scheme funding and to expand the eligible debt period if possible.

Question 26: Should conditionality be built into the design of a debt relief scheme and, if so, which elements of conditionality should we include?

As we have set out throughout our response, we think it is important to keep the scheme as simple as possible and reduce any barriers to engagement. If a requirement is included for customers to have made payments towards ongoing consumption for the previous six months, it is vital that this includes partial payments (including token payments) – as set out in the consultation document. This is important given ongoing high prices and affordability challenges. There would also need to be some discretion shown for customers that had a valid reason why payments had not been made, including affordability of where, for example, there has been a bereavement in the household which has impacted on payment of bills, or where a customer has been unwell and may have been in hospital, including for mental health conditions.

We do not support a condition for customers who are eligible through the automatic route to complete an income and expenditure assessment. As set out elsewhere, we believe that everyone eligible through the automatic route should be given debt write-off. Using means-tested and disability benefits as the eligibility criteria for the automatic route is a strong proxy that someone is likely to struggle to repay anything towards their debt and/ or is particularly vulnerable to harm. Secondly, requiring income and expenditure assessments to be completed for this group would place significant burden on debt advice charities' capacity. This would be very challenging to meet and would detract from being able to prioritise those in need who have to access the scheme through the debt advice application route.

We agree that suppliers' access to funds should be contingent on complying with Standard Licence Conditions – although we would expect this to be a minimum requirement on suppliers anyway, regardless of the scheme. However, we weren't sure if this meant the new Licence Conditions proposed in the Debt Standards consultation. In which case, while we would support this, we would encourage Ofgem to prioritise the introduction of this scheme and it may not be possible to introduce and implement new Licence Conditions before that.

We agree it is important to maximise the benefits of engagement with debt advice and energy efficiency advice through the scheme. However, simplicity and ensuring minimal barriers should guide scheme design. Therefore, while we think it is important to look at how to build this into the scheme where possible, we do not think there should be any set conditionality on it, nor do we support customers being required to accept a smart meter in order to access the scheme.

Question 27: Are there significant data sharing challenges which we should consider in the selection of design options?

We would simply highlight here the importance of getting the required data sharing for the scheme in place. We appreciate there may be some barriers but the importance of the scheme and the significant customer benefit it will deliver means all involved need to work through these as quickly as possible, and have the necessary commitment and ambition to make it happen. This includes government departments, such as the Department for Work and Pensions, who have a key role to play. We would encourage Ministers to direct officials to deliver on this data sharing function, working with Ofgem, suppliers and charities involved in the scheme. Both the pandemic and subsequent period of high prices have shown it is possible for government, Ofgem and suppliers to come together and deliver support schemes at short notice and we need to see the same level of ambition and commitment to deliver this scheme.

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