

Written evidence submitted by Money Advice Trust (WIN0047)

Executive summary

- Energy arrears are one of the most common debts our advisers help with, with around one in five callers to National Debtline and Business Debtline having energy debt.
- Unfortunately, we still see a range of poor practice in how suppliers are treating people in energy arrears – including demanding unaffordable repayments and not taking steps to understand what someone can afford to pay (see section 3).
- Research by the Money Advice Trust found that an estimated 3.2 million people (6% of UK adults) had been asked by their energy supplier to repay arrears at a rate they couldn't afford.¹
- Ahead of this winter, we are particularly concerned about people who are now stuck in energy debt. These are people who have built up energy arrears but have little or no spare income to put towards repaying them.
- Stronger rules and enforcement from Ofgem are needed to better protect people in energy debt (see section 4).
- However, given the scale of energy debt, we also think there is a strong case for a temporary, UK-wide scheme to help people get out of energy debt safely.
- Supported by 16 other organisations, we propose the introduction of a government-funded Help to Repay scheme which would offer help to eligible people struggling to repay energy arrears, via repayment matching and debt relief (see section 5).
- By focusing on bringing arrears down, the scheme would provide highly targeted support to financially vulnerable households in a way that contributes to reduced inflation (through reduced bad debt allowance in the price cap, resulting in lower energy bills for all).
- It would also be in line with public attitudes on how energy debt should be dealt with: three quarters of UK adults (73%) think people who have fallen into energy debt due to high prices should be given help to reduce what they owe.²
- In the medium-term, a social tariff should be introduced to make energy bills more affordable for people on lower incomes.

1. About the Money Advice Trust

The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money with confidence. We run National Debtline, offering free, independent and

¹ Research of 2,000 UK adults, weighted to be nationally representative, conducted by Opinium on behalf of the Money Advice Trust, 25th – 28th April 2023. See Money Advice Trust, [Under Pressure: Tracking the impact of the high cost of living on UK households](#) for more information.

² Research of 2,000 UK adults, weighted to be nationally representative, conducted by Opinium on behalf of the Money Advice Trust, 25th – 28th April 2023. See Money Advice Trust, [Under Pressure: Tracking the impact of the high cost of living on UK households](#) for more information.

confidential advice on personal debt over the phone and online, and Business Debtline, the UK's only free dedicated debt advice service for self-employed people and small business owners.

In 2022, our National Debtline and Business Debtline advisers provided help 140,980 people by phone, webchat and via our digital advice tool, and we had 1.87 million visits to our advice websites.

Energy arrears are one of the most common debts among callers to National Debtline – behind online credit cards, council tax and overdrafts. As of June 2023, almost one in five (18%) of callers had energy arrears. A similar proportion (20%) of callers to Business Debtline had energy arrears.

In our response, we have particularly focused on the following question from the call for evidence:

How should energy companies respond if customers cannot pay their bills and what actions should they not have recourse to?

2. Scale of energy debt

Government support on energy bills – including through the Energy Bills Support Scheme and Energy Price Guarantee – has been very welcome.

However, even with this support, bills in Winter 2022/23 were around double the level of the previous year. Unfortunately, this has meant a significant number of people have faced difficulty paying and have fallen into arrears on their energy bills.

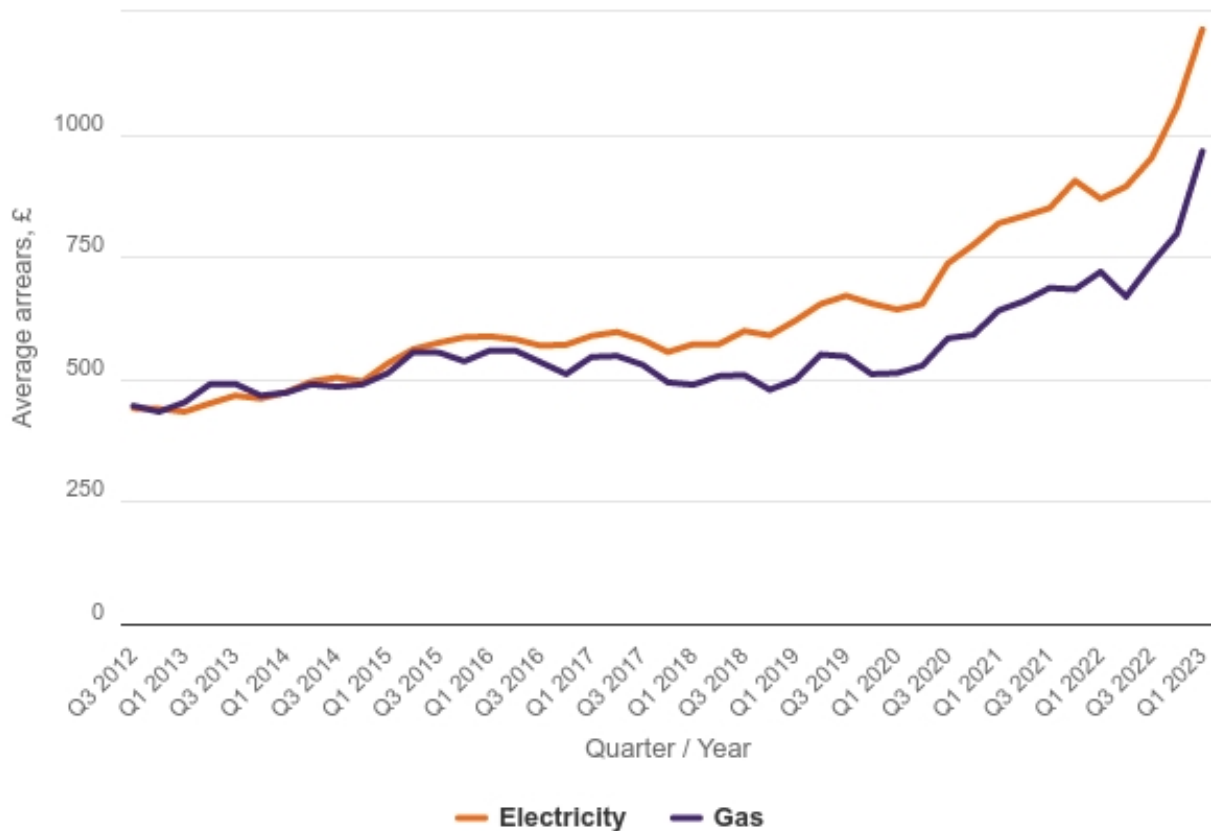
As of Q1 2023, total domestic energy arrears stand at £2.25 billion – an increase of £460 million since the end of 2021.³

The average amount of debt among customers without an arrangement to repay has risen sharply in recent months – up by £346 for electricity and £246 for gas in the past year.⁴ This reflects the challenges some households are facing, where their arrears are growing and they have little to no money to put towards repaying these.

³ Ofgem, [Debt and Arrears Indicators](#).

⁴ Ibid

Average debt level where there is no arrangement to repay the debt (arrears)



Information correct as of: June 2023

Source: Ofgem data

3. Current treatment of people in energy arrears

The current picture on how people in energy debt are being treated is mixed. While there is some good practice, we are unfortunately hearing from many people in energy arrears who are not being treated fairly by their supplier. Box 1 contains a number of real examples, reported by our advisers. Particular issues we are seeing include:

- Frequent cases where suppliers have not taken steps to understand what people can afford to pay towards their energy arrears or are not looking at their individual circumstances.
- People who have tried to engage with suppliers and have made offers of what they can afford to pay, but they have been told the amount they are offering towards arrears is below the minimum that the supplier can accept towards arrears.
- People reporting that suppliers have not taken account of their vulnerability, despite disclosing this to the supplier (e.g. health conditions).

Box 1: Recent examples of poor practice experienced by callers to National Debtline

(All names have been changed to protect identities)

Sara* has an outstanding bill of £400 which she is struggling to repay. The supplier has been continually chasing her for this and told her she must pay the bill in full, despite Sara being on benefit-only income and being unable to afford this. Sara said that her supplier have not offered her any support to help get out of debt.

Michael* moved supplier in May and set up a new direct debit, which was taken as planned. However, the supplier has now provided a bill saying he owes £444. He has begun paying this off in affordable, £20 instalments, which the supplier initially accepted. However, the supplier has now been in contact to say they will only accept full payment of the debt or they will pass it to a debt collection agency.

Mo's* supplier has been calling him every other day chasing him for a £240 energy debt, despite the fact that he is already repaying this through Fuel Direct (deductions from his benefit). Mo has a long-term health condition but said he has found staff at the supplier to not be understanding of this or take it into account.

Louise* works part time and is a single parent. She had a damp issue in her property which meant she had to heat her home more to avoid mould building up. She now has an energy bill of £210. She has already paid off £90 of this, but despite this, the supplier has charged her a £30 late fee. She explained her situation to the supplier but does not feel they have taken this into account.

Stuart* and his family have a prepayment meter for their gas and electricity. His child needs a ventilator due to his health condition and they are struggling to afford to top-up the amount they need. The supplier has said that due to debts on the meter, they cannot help and told Stuart to borrow money from family or friends instead.

Our UK-wide research⁵ highlighted the scale of these issues.

- An estimated 3.2 million people (6% of UK adults) said their energy supplier had asked them to repay arrears at a rate they couldn't afford.
- Around 4.7 million people (9% of UK adults) said their energy supplier had provided them with support either to help them afford their bills or to deal with energy debts. However, a similar proportion reported a more negative experience. 7% of UK adults - equivalent to 3.9 million people – said they contacted their energy supplier to tell them they were struggling to afford their energy bills, but their supplier did not offer them any support.
- A further 6% - 3.2 million people – said they had tried to contact their energy supplier to ask for help but could not get through.

4. Helping people trapped in energy debt

⁵ Research of 2,000 UK adults, weighted to be nationally representative, conducted by Opinium on behalf of the Money Advice Trust, 25th – 28th April 2023. See Money Advice Trust, [Under Pressure: Tracking the impact of the high cost of living on UK households](#) for more information.

We are particularly concerned about people who are now stuck in energy debt. These are people who have built up energy arrears but have little or no spare income to put towards repaying them.

With energy prices remaining at a high level and sustained increases in other household bills and costs, many people's budgets are stretched to the limit. Two in five (41%) callers to National Debtline have a negative budget, meaning they do not have enough income coming in to cover their essential costs, such as rent, energy bills, council tax and food.

This can cause significant harm. People subject to unaffordable repayments on one debt often fall behind on other bills, or end up going without essentials, such as food, as a result. They may also turn to further borrowing, worsening their financial situation in the longer-term. The stress of being in debt also has a significant impact on people's mental and physical health, their ability to concentrate at work and their family relationships. Recent research found that 15% of UK adults – equivalent to 7.9 million people – are regularly losing sleep worrying about money.²

Recommendations

We need to see a revised approach in the energy sector to helping people in energy debt. This must recognise the challenging situation some people find themselves in after a sustained period of very high prices – not just in energy, but across all household costs – and with another challenging winter ahead.

Affordable repayments

Suppliers need to be better at assessing individual's ability to pay, taking account of their circumstances and offering people genuinely affordable repayment plans. If someone cannot afford to pay anything towards their debt at this time, then suppliers should pause collection activity. This can be kept under review so that when prices fall, or the customer's circumstances change they can look at repayment options.

A key issue we see is suppliers refusing offers of affordable repayments from customers because they do not meet the 'minimum payment' requirements they have. Suppliers should not refuse offers of affordable repayments from customers, or push them to make higher repayments than they can afford.

We are pleased to see that Ofgem is proposing to remove references to minimum payments, as part of its consultation on new Consumer Standards.⁶ Suppliers will also be required to pause scheduled payments for 'an appropriate period of time' where needed. This is welcome, although we are concerned that this could still lead to significant variation in suppliers' approaches, and that **more prescription may be needed to ensure payments are being paused for the length of time the customer needs. Ofgem also need to ensure that suppliers are conducting a proper assessment of a customer's ability to pay, and amending any repayment plan before repayments are reinstated.**

Preventing the use of inappropriate collection methods

⁶ Ofgem, Consumer Standards - Statutory Consultation, August 2023

Government and Ofgem have rightly acted to better protect vulnerable households from poor debt collection practices, including restrictions on the use of the forcible installation of prepayment meters. This is very welcome. However, we need to ensure this does not lead to greater use of other harsh and expensive collection and enforcement methods – such as High Court Enforcement – which would be completely inappropriate for vulnerable households in financial difficulty. **Ofgem should set clear rules, as they have done with prepayment meters, over the use of High Court Enforcement.** Where a customer is deemed too vulnerable to have a prepayment meter installed, they should clearly be treated as too vulnerable to be pursued through the courts.

5. A Help to Repay scheme to deal with energy arrears

The actions set out above would better protect people in energy debt, and reduce the risk of them being subject to unaffordable repayments or inappropriate collection or enforcement activity. However, they still leave the outstanding debt to be dealt with. Given the scale of energy debt we are seeing, we think there is a strong case for a temporary, nationwide scheme to help people get out of energy debt safely.

Alongside 16 other organisations⁷, we have called for a temporary, government-funded ‘**Help to Repay**’ scheme. This would offer support to eligible people struggling to afford to repay energy arrears incurred during this period of high prices, via repayment matching and debt relief. Repayment matching would work, for example, by matching each pound repaid with an equivalent amount of debt relief, or providing debt relief on the remaining arrears after a certain period of ongoing payments.

By focusing on bringing arrears down, the scheme would provide highly targeted support to financially vulnerable households in a way that contributes to reduced inflation (through reduced bad debt allowance in the price cap, resulting in lower energy bills for all).

To ensure the scheme is targeted and efficient to administer, standardised eligibility criteria would be used as a proxy for people who are likely to struggle to repay arrears. For example, household income level, receipt of means-tested or disability benefits or eligibility for existing support, such as the Warm Home Discount. This also creates the option to use data matching to automatically identify eligible customers.

There could also be an additional, discretionary route for people who can show they would struggle to repay arrears in a reasonable timeframe, but who do not fit into the standard eligibility criteria.⁸

To reduce the burden on suppliers and ensure efficient administration, the scheme could be centrally administered by an existing, experienced energy sector grants administrator.⁹

Benefits of a Help to Repay scheme

⁷ The following organisations have supported the Money Advice Trust’s call for a Help to Repay scheme: StepChange Debt Charity, End Fuel Poverty Coalition, Fair By Design, Christians Against Poverty, Scope, Mencap, Energy Action Scotland, Community Money Advice, Independent Age, Chartered Institute of Housing, Institute of Money Advisers, University of Bristol Personal Finance Research Centre, Warm this Winter, Groundwork, National Energy Action and Debt Justice.

⁸ We propose this would be based on an individual’s income and expenditure, as calculated using the Standard Financial Statement – an agreed, objective tool for assessing affordability, run by the Money and Pensions Service and used by FCA-authorised debt advice providers and the Insolvency Service. Where this showed that people would struggle to afford to repay energy arrears, or to do so in a reasonable timeframe, they would be eligible for support from the scheme.

⁹ Examples of grant-administration organisations already operating in the energy sector include [Charis](#) and [Auriga Services](#).

We note that the development of a scheme that would accelerate the repayment of energy debt through payment matching was recommended by the-then Business, Energy and Industrial Strategy Committee as part of the inquiry into Energy pricing and the future of the energy market.

The scheme would also have a number of other benefits, including:

- Keeping energy bills lower for all consumers, through a lesser bad debt allowance in the energy price cap and a more stable energy market. This would, in turn, help to reduce inflation.
- Providing suppliers with a route to recover energy arrears, to balance against additional restrictions (rightly) put in place on the use of prepayment meters.
- Reducing pressure on the NHS, particularly mental health services, through reduced negative impact of problem debt. Analysis by the Money and Mental Health Policy Institute, based on NHS Talking Therapies outcomes, found that people who have depression and financial difficulties are **4.2 times more likely** to be still experiencing depression 18 months later, compared to those who have depression but no financial issues.¹⁰
- Supporting people to reduce their debts could therefore have a direct effect on recovery rates for mental health conditions. This would reduce demand on NHS Talking Therapies and other mental health services and create savings which could be redirected into reducing waiting times in other areas of the health service, too.

Crucially, a Help to Repay scheme would be in line with public attitudes on how energy debt should be dealt with. Nationally representative polling of 2,000 UK adults, for the Money Advice Trust, found that three quarters of UK adults (73%) think people who have fallen into energy debt due to high prices should be given help to reduce what they owe.¹¹

Recent consumer research conducted by Ofgem highlighted support for writing off energy debt, funded by taxation rather than higher consumer bills – with this being spontaneously raised by consumers in focus groups.

“While consumer support for protecting vulnerable customers from being moved on to PPMs without their consent is strong, many instinctively opposed paying for this through higher bills themselves. Many focus group participants said that energy suppliers should cover the costs, either by writing off debt or by some form of taxation / industry scheme... Some participants also said they would be willing to see an increase in their taxes to pay for these as preventative measures.”¹²

Costs of a Help to Repay scheme

¹⁰ Money and Mental Health Policy Institute, [Breaking the cycle](#), July 2023

¹¹ Research of 2,000 UK adults, weighted to be nationally representative, conducted by Opinium on behalf of the Money Advice Trust, 25th – 28th April 2023. See Money Advice Trust, [Under Pressure: Tracking the impact of the high cost of living on UK households](#) for more information.

¹² Ofgem - [Consumer attitudes to involuntary prepayment meter installation rule changes](#), April 2023

The scheme would be temporary, and a set budget could be allocated from the start. To establish the budget allocation, Government should work with Ofgem, suppliers and charities to establish the amount needed based on the best available data – including the recent Requests for Information (RFIs) Ofgem issued to suppliers on debt-related costs.¹³

Not all energy debt currently on suppliers' books will be held by people struggling to repay, and therefore eligible for the scheme. For the repayment matching element of the scheme, only part of the debt cost would need to be met.

August 2023

¹³ Ofgem [Call for Input on allowance for debt-related costs](#)