www.stepchange.org

Ofgem - Consultation to review the Energy Industry Voluntary Redress Scheme

StepChange Debt Charity Response

StepChange Debt Charity London Office
Floor 3, 27 Queen Anne's Gate, London SW1H 9BU
Policy Contact: Ed McDonagh
Email: ed.mcdonagh@stepchange.org

Question 1. Do you consider the funding split between the Main Fund, Innovation Fund and Decarbonisation Fund to be appropriate?

We consider the funding split to be broadly appropriate. However, we feel that changes should be made to the eligibility criteria of the main fund, to broaden its scope, as it is currently restricted to only those organisations providing explicit energy advice. The stated aim of the main fund is broad, 'to support energy consumers in vulnerable situations', however, the fund does not currently allow debt advice providers like StepChange to apply. This is due to the fact that, in addition to providing energy consumers with holistic debt advice, we also disburse payments to energy providers on behalf of any client on an agreed payment plan. This activity precludes organisations like StepChange from being eligible for funding, as it is deemed that money accrued from fines that is put into the Fund, should not directly benefit energy firms in the form of debt repayments. We believe this approach is based on a very narrow view of debt advice, and our evidence shows the holistic benefits of debt advice for energy consumers. Individuals who go through the advice process show improved wellbeing, which in turn helps to tackle drivers of fuel poverty, such as confidence when engaging with suppliers and managing day to day usage. Increasingly, we see individuals coming to us with energy arrears who have a deficit budget; this means that after going through the budgeting process they do not have enough money to cover essentials living costs. These individuals will inevitably struggle to cover ongoing energy usage but will often come to debt advice as the first service to address their wider financial difficulties. Debt advice can improve these consumers' ability to meet ongoing costs, through income maximisation and negotiation with suppliers on their behalf. However, debt advice providers currently have limited options to resolve all the challenges for clients with a negative budget. Expanding the scope of the main fund to include debt advice providers like StepChange would benefit these consumers, ensuring that those who turn to debt advice when faced with affordability challenges and fuel poverty, receive the support they need.

Question 2. Do you consider the proportionate funding split between vulnerable consumers and all energy consumers to be appropriate? i.e. 70% to vulnerable consumers and a total of 30% to all energy consumers.

We think the funding split is proportionate for the purposes of the scheme. We would like to emphasise that vulnerabilities are closely linked to debt and financial hardship. In research we conducted in 2018 we found that 45% of our clients with an additional vulnerability had a deficit budget, compared to 30% of clients overall.[1] Individual vulnerabilities often trigger debt problems. 40% of our clients with mental health issues stated that it was their mental health that had caused them to fall into debt.[2] This demonstrates the increased difficulty vulnerable individuals face managing their day to day expenditure. Through our debt advice process, we identify individuals with additional vulnerabilities, beyond their financial difficulties, and refer them to our dedicated advocacy

---

[1] StepChange (2018), Breaking the link A closer look at vulnerable people in debt
[2] Ibid

team based in Cardiff. This team of specialist advisers is trained to offer a bespoke service to those with additional needs and can assist in supporting clients with specific solutions, like negotiating debt write-offs for people who are terminally ill. However, as it stands, we do not receive funding from the energy sector for these services and have limited options available to support clients with a deficit budget. Therefore, while we support the split in funding, we would like to see financial vulnerability and its interconnection with wider vulnerabilities, reflected in decisions about which organisations are in scope to receive funding through the Scheme.

Question 3. Should a fuel voucher fund remain a permanent feature of the overall Energy Redress Scheme, so that it can react quickly to specific crises?

We support the fuel voucher fund remaining a permanent feature of the overall Energy Redress Scheme. Over a third of our clients with energy debts have a negative budget. This means that they do not have enough income to cover essential expenditure, let alone the resources to make debt repayments. As it stands, there are limited options available to these clients. The fuel voucher fund provides an avenue to help these individuals to reduce their energy debts.

Question 4. If a fuel voucher fund is set up, what type of consumer should be eligible to apply for these vouchers? e.g. vulnerable consumers, pre-payment meter consumers.

We are currently working towards delivering fuel vouchers nationally, in collaboration with another organisation. We have discussed targeting vouchers for clients with a deficit budget and a prepayment meter. However, we would not necessarily want to see the Scheme restricted to these consumers alone.

We consider all clients that we see to be financially vulnerable. This financial vulnerability is often linked to other forms of vulnerability, like mental or physical health problems. As noted, around a third of our clients with energy debt have a deficit budget, which means they are in an extremely financially vulnerable situation and unable to cover essentials. Nearly two thirds of these clients have an additional vulnerability. Given that, overall, one in two of our clients are vulnerable, and clients with energy debts are more likely to be facing additional vulnerabilities than our average client.

Although we don't capture fuel payment method, we know from internal adviser surveys that clients with energy debts use a variety of payment methods. Although households without pre-payment meters don't face the heightened risks of self-disconnection of those with pre-payment meters, the disproportionately vulnerable nature of these clients suggests their arrears may be linked to other hardships. We would therefore support fuel vouchers being made available for those on other payment methods, where individuals have been assessed as vulnerable, including severe financial vulnerabilities like having a deficit budget.

2. Widening the eligibility scope to other organisations

Question 5. What are your views on expanding the applicant scope beyond charities and organisations that partner with charities? If you think the scope should be expanded, do you have any suggestions for how eligibility should be defined? (e.g. what legal structures/status should qualify? Should there be other qualifying criteria?)

As it stands, StepChange Debt Charity is unable to apply to the Energy Saving Trust (EST) because the charity does not fit the criteria of providing an energy service. We strongly believe that the applicant scope should be expanded to include debt advice providers like StepChange. We provide support to thousands of energy consumers annually. These individuals are often in acute financial hardship, as well as facing additional vulnerabilities. They are exactly the demographic that Ofgem is seeking to support through this scheme. While many of these clients enter a repayment solution, debt advice also supports consumers to manage their bills. Through the budgeting process advisers help with income maximisation, negotiating with suppliers, as well as signposting to specialist vulnerability support teams. However, our offer for consumers in the utilities sector is limited, as we do not receive consistent funding from energy companies, as we do from other sectors, to enable us to fund dedicated energy services. Increasingly we see clients with deficit budgets who are unable to afford basic needs like heating, let alone begin debt repayments. For these clients we are particularly restricted in the support we can offer. Expanding the scope of eligible organisations to include debt advice providers like StepChange, would help to embed and bolster the aspects of our service which address fuel poverty, while also improving the scope of support we could offer consumers with a deficit budget. This would improve both the targeting of the scheme and its effectiveness at meeting key outcomes.

Last year 26% of our clients had electricity arrears, 23% had gas arrears and 41% had dual fuel arrears. Overall, we supported over 130,000 people facing energy debt. These numbers may increase significantly as temporary support measures in place for the Covid-19 pandemic are removed. Polling we conducted in January suggest that, nationally, 1.5 million GB adults have fallen behind on their electricity bill and 1.1 million are behind on their gas bill.[3] In February, the FCA found that 3.5 million more adults have low financial resilience compared to before the pandemic began, with almost two-fifths (38%, or 19.6 million) of adults anticipating that they will face a form of financial difficulty, including being unable to pay domestic bills, over the next six months.[4] These figures demonstrate the challenges faced by consumers across the country and the likelihood of increases in energy debt and arrears over the coming months.

---

[3] StepChange Debt Charity (2021) Stormy weather: the impact of the Covid-19 pandemic on financial difficulty in January 2021

[4] FCA (2021), Financial Lives 2020 survey: the impact of coronavirus

Ofgem has recognised the likelihood of increased energy arrears in the recent consultation on increases to the energy price cap to account for the cost of this increased debt for suppliers.[5] The nature of our service means that many of these individuals will come to StepChange for advice, putting us in a strong position to identify and support those most in need of help with their energy bills.

Taking stock of the full spectrum of debts faced by clients, allows advisors to identify clients who are facing difficulties in managing the demands placed on them by essential service providers and other creditors, and then support them to stabilise their situation, prioritise repayments and resolve outstanding debts. On average, StepChange clients with energy arrears had ten debts, compared with seven debts for all clients, highlighting the value of this support.

Even for clients with a positive budget, advisors can identify affordability risks, or where coping strategies are masking poverty. In research conducted in 2017, we found that StepChange clients on the lowest incomes (under £10,000) spent, on average, 93% of their income on these household bills and food.[6] Identifying individuals running so close to the limits of their budgets puts us in a position to intervene and develop strategies to help individuals stay 'above water'. We also found that those without rent arrears had a higher debt to income ratio than those with rent arrears, suggesting that households that had not fallen behind were relying on credit to cover bills.[7] Picking up these patterns and identifying those at risk, or already facing challenges with covering household bills, puts us in an excellent position to support those the Energy Redress Scheme seeks to help.

The Money and Mental Health Policy Institute (MMHPI) has shown how vulnerabilities like mental health problems make it difficult to engage with essential service providers. Four in ten (37%) people who have experienced mental health problems exhibit significant levels of anxiety when dealing with essential services, including symptoms such as a racing heart or trouble breathing. Three quarters (75%) of people who have experienced mental health problems have serious difficulties engaging through at least one common communication channel with essential service providers.[8] Evidence has demonstrated that StepChange's advice service helps address these issues. In a recent review of the outcomes of debt advice we found that, after 15 months, clients' overall wellbeing and confidence in managing their financial situation had improved.[9] On average, clients reported being happier and less anxious, with a marked improvement in their mental wellbeing scores. Although wellbeing scores were still below national averages, those who were debt free or felt there was an excellent chance of them becoming debt free had life satisfaction scores very close to the national average. These impacts on wellbeing leave consumers better able to manage their energy bills after debt advice.

The debt advice process is also linked to general improvements in ability to manage day to day energy usage. In our review of client outcomes, 85% of clients reported having money management capability 15 months after advice, demonstrating that capability to manage spending, budget and

[5] OFGEM (2021), Reviewing the potential impact of COVID-19 on the default tariff cap: cap period seven working paper
[6] StepChange (2018), Behind on the basics: A closer look at households in arrears on their essential bills
[7] Ibid
[8] MMHPI (2019), Money and Mental Health: The Facts
[9] StepChange (2020), Paths to recovery: Understanding client outcomes 15 months after debt advice

cope without credit is well embedded among clients at this stage.[10] Research conducted by Experian and British Gas in 2017 found that not only did debt recovery rate improve among consumers who came to StepChange for advice, compared with those who did not, but these consumers were also less likely to fall into arrears or see their situation quickly deteriorate if they did. These impacts demonstrate that the service provided by StepChange addresses some of the key barriers preventing people engaging successfully in the energy market, increasing people's ability to manage their situation and reducing the risks of harms through coping mechanisms like self-disconnection.

We believe that with additional funding we could build on these existing positive impacts and broaden our service offer to clients we see with energy arrears who are facing fuel poverty. Although the debt advice process does tackle some of the key problems people face in managing their energy usage, two of the key drivers of fuel poverty are low income and high costs.[11] A range of factors means that debt advice providers increasingly see clients who are unable to meet essential expenditure.[12] We are severely restricted in the support we can offer these clients and do not receive the funding from the utilities sector that would allow us to develop a better offer. Without funding, we are unable to utilise fuel bank voucher schemes or develop a broader offer for these clients, which may for example involve closer analysis of appropriate tariffs for clients. Funding would create scope to improve aspects of the debt advice process that already address fuel poverty, including confidence in managing money and engaging with suppliers, extending the positive impacts found by British Gas and Experian. We would also welcome working with Ofgem to understand how our service could further support the goals of the scheme.

The funding we currently receive from the utilities sector neither reflects the positive impact debt advice has on energy consumers, nor provides scope to build on our service offer. The same research conducted by British Gas and Experian found that StepChange protected over £20 million of expenditure in 2019 on behalf of utility organisations. Prior to the creation of the Redress Scheme, firms were able to decide where fines were sent, and StepChange received a sizeable donation from British Gas. In 2020, StepChange received funding from only one of the big six energy firms and there is no guarantee that this will be repeated this year. Funding from the Money Advice and Pensions Service (MAPS) in 2020 has helped the charity deal with this shortfall, but this funding will not be extended. Given the benefits provided to consumers in the energy sector by debt advice, there is a case for increasing funding from this sector generally. We feel that funding through the Scheme specifically, would help StepChange embed support already provided through debt advice. As described, that support is already closely aligned to the aims of the Scheme. Greater access to funding would allow us to strengthen and improve the elements of the debt advice process that support those facing energy affordability challenges, and particularly those in acute financial difficulty or with additional vulnerabilities.

[10] Ibid
[11] BEIS (2021), Annual fuel poverty statistics in England 2021
[12] Citizens Advice (2020), Negative budgets: A new perspective on poverty and household finances