

# StepChange response to Ofgem Debt Relief Scheme statutory consultation

December 2025

# Introduction

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StepChange Debt Charity is a specialist not-for-profit provider of debt advice and debt solutions supporting people across the UK. In 2024, over 660,000 people contacted StepChange seeking debt advice or guidance with their problem debt and over 170,000 people completed full debt advice through our online and telephone service. We welcome the opportunity to feed into Ofgem's policy update working paper on the proposed Debt Relief Scheme (DRS).

## Response to consultation

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We welcome Ofgem's decision to introduce the DRS and broadly support the proposed phase 1 scheme design. StepChange favoured a scheme that emphasised debt relief above conditionality, had a longer eligible debt period and included energy debts below £100. We recognise, nevertheless, the proposals will extend energy debt relief to a wide group, a significant proportion of eligible customers will meet the automatic engagement criteria and, for eligible customers who do not, the engagement conditions are sufficiently light touch and realistic to allow many to access debt relief.

This response highlights four areas where we would welcome further steps from Ofgem to develop its final design approach and guidance:

- **We remain concerned that some non-engaged customers in the most difficult circumstances will miss out on debt relief because they face the highest barriers to engagement.** Ofgem has set out some steps for suppliers to seek to engage these customers. We note below how Ofgem can put more emphasis on sustained but proportionate efforts to engage these customers to achieve the highest possible take-up among those likely to benefit most from debt relief.
- **The scheme will demand that suppliers engage customers in the eligible but non-automatically engaged group that are likely to be vulnerable to poor outcomes and we would like Ofgem to do more to ensure suppliers are prepared to support these customers effectively.** There are risks the scheme inadvertently drives poor outcomes for some customers because, in order to meet engagement criteria, they take actions like making unaffordable payments that lead them to fall behind on other bills like housing or council tax, take out unaffordable credit or otherwise experience hardship. The guidance indicates Ofgem is relying on supplier BAU processes to support eligible customers, but StepChange regularly hears from customers who have had poor experiences with suppliers from existing customer support processes. We would like Ofgem

to develop its guidance to highlight particular factors and risks relevant to supporting the non-engaged group of customers.

- **There are unclear potential impacts on FCA-regulated debt advice.** Advice providers do not have capacity to meet a significant unfunded increase in demand driven by the scheme, and funded arrangements require time to implement. Ofgem has communicated informally it expects the impact of phase 1 of the scheme on debt advice demand to be very limited. Nevertheless, given the volume of customers involved it is not clear from the consultation or impact assessment how that judgement has been reached. Ofgem's draft guidance for suppliers notes that it will monitor impacts of the scheme on advice demand and act if needed: we would welcome more detail on Ofgem's expectations and approach.
- **Finally, we highlight a number of specific design points Ofgem we would like Ofgem to address more clearly in its final guidance.** For example, we would like Ofgem to be clearer that a part payment in any billing period meets the engagement criteria, which is particularly important in light of the different lengths of billing periods to ensure fair access to the scheme.

### **Take-up among eligible non-engaged customers**

The scheme is designed in such a way that any customer making an ongoing payment towards energy will be eligible and this appears to represent a relatively low bar to entry. Nevertheless, Ofgem is estimating that around half of debt eligible for write-off will actually be written off (Impact Assessment, 1.9). This indicates Ofgem expects a significant proportion of eligible customers to not meet the automatic engagement criteria. This of itself seems worrying since not being able to make any payment to ongoing costs during the year Ofgem plans for the scheme to be open suggests an exceptionally high level of disengagement, financial and other vulnerability (noting there may be other factors underlying disengagement for some customers).

Financial difficulty itself creates barriers to engagement: worry, anxiety and confusion tend to be heightened, mental health problems are caused or deepened, and people often fear the financial consequences of reaching out for support, such as being pressured to make unaffordable payments. We note again that Ofgem's own work and vulnerability definition acknowledges that "consumers in vulnerable situations are significantly less likely to be able to engage with their supplier and protect or represent their own interests" (December 2024 Debt Standards Consultation, 2.19).<sup>1</sup>

In light of the significant potential gap between eligibility and take-up of debt relief, and the expected one year length of the scheme, the proposed guidance requiring suppliers to make a minimum of two attempts to contact customers by different means looks very limited (draft Delivery Guidance, 3.52).

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<sup>1</sup> Ofgem (2024) [Improving debt standards in the domestic retail market](#)

The draft guidance on seeking to engage customers also does not yet take sufficient account of evidence of effective approaches to engaging customers who may be in financial difficulty. The guidance (3.47) states ‘suppliers must inform [customers that must reengage] of the availability of support under the DRS. This initial contact should be as comprehensive as possible to help customers understand their options and choose the best engagement type for them.’ We recognise the intent behind this language but too much information can be overwhelming, so it is important suppliers think carefully about how to supply and frame information, and the conditional nature of the scheme could easily be perceived as threatening if not communicated carefully.

We would like Ofgem to redraft the guidance to:

- strengthen its expectations of suppliers to make reasonable attempts to contact customers that do not engage throughout the lifetime of the scheme;
- highlight that suppliers should seek to effectively communicate the benefits of the scheme and avoid language that could be interpreted as threatening; and
- ensure that suppliers take a test and learn approach, drawing on their own evidence and good practice in communicating with customers in difficulty, including that set out in Ofgem’s *Good practice for supporting customers in payment difficulty* guidance.<sup>2</sup>

We know from our own experience as a debt advice provider how challenging seeking advice and support can be for people in serious financial difficulty. Given how low the engagement threshold has been set for the scheme, it will be unfortunate if customers miss out unnecessarily due to ineffective communication.

We would also reiterate that we would like to see more flexibility and a route to exemptions from the engagement conditions where people are in certain circumstances, such as serious illness or being placed into care. Put simply, Ofgem should give suppliers discretion to wave engagement conditions where customers could not reasonably be expected to engage with the scheme. We do not think it is sufficient to rely on suppliers’ discretion to write-off energy debt outside the scheme because that does not always happen.

### **Supplier support for non-automatically engaged customers**

We’d also like Ofgem to do more to set expectations of suppliers in supporting customers that do not meet automatic eligibility criteria and seek to engage. We welcome Ofgem’s reference in the draft guidance (3.28) to the importance of repayment plans that are ‘fair and reasonable’ and to the ability to pay license condition SLC27.8.

However, there are well-evidenced problems of poor practice by some suppliers in supporting customers in difficulty. Case studies gathered from StepChange advisors

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<sup>2</sup> Ofgem (2022) [Good practice for supporting customers in payment difficulty](#)

continue to surface evidence of poor practice, including rejection of reasonable repayment offers and poor treatment of customers in vulnerable situations. Here we would highlight three specific points:

- suppliers will not only be discussing repayment plans with customers but restarting ongoing payment: both circumstances demand careful support from suppliers to ensure that customers do not feel pressured into, or inadvertently agree to, unaffordable payments; and
- the guidance is unclear whether using Fuel Direct for ongoing energy costs (which requires the consent of a customer) or using Fuel Direct for deductions to repay arrears qualify as an engagement condition, or both.

We would expect the scheme to work well for most customers, and the benefits of debt relief to be significant. However, Ofgem should strengthen its guidance to ensure the scheme does not inadvertently drive avoidable poor outcomes or have unintended negative effects for some customers.

Ofgem should use the guidance to:

- highlight this group of customers is likely to be at higher risk of poor outcomes from unsustainable agreements and the importance of seeking to fully understand a customer's circumstances before advising a customer on the appropriate engagement route and agreeing a repayment plan;
- highlight the connection with Ofgem's ongoing programme of work to improve debt standards; and
- clarify its intentions for Fuel Direct and develop the guidance to ensure deductions from benefits are only used where affordable (if Ofgem intends suppliers to seek to use Fuel Direct to attach deductions to repay arrears, it should in this section of 3.28 reiterate the same points about ability to pay as in the preceding paragraph on arranging repayment plans).

### **Referrals to, and impacts on, FCA-regulated advice**

We support appropriate and effective referrals to FCA-regulated advice providers and elsewhere have strongly advocated for Ofgem to ensure continued progress in this area. StepChange works closely with a number of energy suppliers to support clients, and we welcome further work by Ofgem and others to promote and develop funded referral arrangements between suppliers and advice providers.

We have two concerns in relation to advice referrals. The first is that the scheme proposals for the debt advice referral engagement route risk creating confusion about expectations of suppliers. There are well-evidenced problems of poor practice by some suppliers, including not identifying advice needs and making effective referrals, making inappropriate referrals, and 'gatekeeping' referrals to a single partner organisation (and refusing to work with other FCA-regulated advice providers). There is evidence of effective approaches to referrals developed by the Personal Finance

Research Centre (PFRC) at the University of Bristol (with partners including Ofgem and StepChange). Outside of this scheme, Ofgem has been making efforts, supported by StepChange and others, to improve referral pathways: we want Ofgem to maintain and accelerate this progress and avoid sending mixed messages to suppliers about how they should approach advice referrals. Equally, we do not want to see onerous or unrealistic debt advice engagement criteria that create a barrier to accessing debt relief.

We have also been clear in our engagement with Ofgem and responses to formal consultations on the scheme that it is not practical or feasible for advice providers to accommodate significant unfunded increases in demand, and that even funded arrangements typically take significant time to put in place.

There is ambiguity in the language that Ofgem uses in the draft guidance regard to advice referrals: 3.28 of the guidance refers to 'warm referrals' but a 'warm referral' has a specific technical meaning of transferring a customer directly to an advice service that depends on some form of shared infrastructure. The language Ofgem uses in this paragraph indicates, however, that it expects the engagement criteria to be simply a referral, which is to say not merely providing information but actively communicating about debt advice.

This distinction matters because true warm referrals will not be possible in many cases as many suppliers do not have this capability (and new warm referral arrangements at scale would have as yet largely unaddressed implications for advice capacity).

We also recognise Ofgem's intention in encouraging suppliers to provide customers with details of an appropriate debt advice service but in light of the problem of suppliers gatekeeping access to advice, would strongly advise it not to encourage suppliers to give customers the impression they have only one option of advice provider. There are a number of reasons for this: customers will have needs that specific providers may not be able to meet (for example, because they are self-employed or have additional communication needs), while others will already be in contact with an advice provider and asking them to begin the advice process again from scratch would be disruptive and unnecessary.

We also agree that, if customer has already been referred by a supplier to advice in the last six months, they'll be considered to meet the engagement condition. (We would also advise Ofgem to make provision in its guidance for customers who have independently accessed debt advice recently since these customers are unlikely to benefit from a repeat referral, and unnecessary referrals would not be a good use of advice capacity.)

The guidance also does not yet appear to be clear on how a customer will be deemed to have accepted an advice referral and become eligible for debt relief. We do not

support an approach that would require advice providers to supply evidence of an advice session as this will not be practical.

We recognise Ofgem's intentions in the draft guidance, but believe it is important to clarify the language on advice referrals in 3.28 and elsewhere. We suggest that Ofgem:

- should require providers to make 'an effective advice referral' but should not refer to this as a 'warm referral';
- may nevertheless refer to the benefits of warm referrals in the guidance but should make clear a warm referral is not a requirement for a customer to meet the engagement criteria; and
- should make clear that 'accepting an advice referral' means a customer has met the engagement criteria, which should be taken to mean in the broadest sense possible that the customer agrees to do so verbally or otherwise, for example through a digital form, email, or chat interaction.

More generally, Ofgem could go further in its guidance to embed good practice in advice referrals and encourage suppliers to effectively communicate the benefits of debt advice. We would reiterate the relevance here of the work Ofgem is currently doing in collaboration with the PFRC around improving debt advice referral pathways for energy consumers. Key elements of an effective referral pathway from PFRC's earlier *Joined up* report include:

- clients' referral needs are identified in the first place;
- clients understand where they're being referred and why;
- clients are referred at the right time for them;
- referrals are smooth and effective;
- clients are referred to relevant organisations; and
- using feedback loops to improve referrals.

Similarly, Ofgem should make clearer that some customers will have additional advice needs beyond FCA-regulated debt advice and should seek to refer to an appropriate service.

There are still uncertainties about impacts of the scheme on debt advice demand. We note Ofgem has not shared an estimate of the percentage of customers eligible for phase 1 that will be automatically engaged. Given the financial vulnerability of those not automatically engaged, if suppliers ask the right questions about affordability and debts, they seem likely to find a significant proportion of customers are suitable for referral to advice. While we welcome Ofgem's clear language in the guidance that it 'will monitor the number of referrals and work with CGCs to ensure that undue pressures are not placed on CGCs' (1.14), it is vital any potential impacts are surfaced before the scheme is operational to ensure good experiences for customers in difficulty and minimise uncertainties for suppliers and advice providers.

### **Other design points**

There are a small number of specific comments we would like to highlight. Our understanding from discussions with Ofgem officials is that:

- any level of payment to the most recent bill (including part-payment) will qualify a customer automatically for the scheme;
- that a customer that has not paid their most recent bill at the start date of the scheme but then pays the next (or a subsequent) bill would be treated as meeting the engagement criteria; and
- that debts passed to a debt collection agency will be covered by the scheme.

Each of these points is welcome and will benefit different groups of customers and we would encourage Ofgem to ensure these points are clear in its final guidance.

Finally, we would encourage Ofgem to be flexible about the length of time it plans for phase 1 of the scheme to be open. It is likely to take time to engage eligible customers, and the capacity of suppliers to do so is likely to increase with time. We recognise the scheme cannot be open indefinitely and suppliers need some certainty to plan, but an arbitrary cut-off seems unlikely to be helpful if an extension for three or six months can ensure the scheme maximises its intended impact in debt relief and customer engagement.

