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# Improving debt standards in the domestic retail market

## About us

Consumer Scotland is the statutory body for consumers in Scotland. Established by the Consumer Scotland Act 2020, we are accountable to the Scottish Parliament. The Act defines consumers as individuals and small businesses that purchase, use or receive goods or services in Scotland supplied by a business, profession, not for profit enterprise, or public body.

Our purpose is to improve outcomes for current and future consumers, and our strategic objectives are:

- to enhance understanding and awareness of consumer issues by strengthening the evidence base
- to serve the needs and aspirations of current and future consumers by inspiring and influencing the public, private and third sectors
- to enable the active participation of consumers in a fairer economy by improving access to information and support

Consumer Scotland uses data, research and analysis to inform our work on the key issues facing consumers in Scotland. In conjunction with that evidence base we seek a consumer perspective through the application of the consumer principles of access, choice, safety, information, fairness, representation, sustainability and redress.

# Our response

## The current landscape for debt for consumers in Scotland

We welcome the proposed measures to improve experiences for people who are struggling to pay their energy bills. The recent period of elevated energy prices has posed significant challenges for both households and small businesses, with many struggling to meet their energy costs and, in some cases, relying on financial reserves to cover essential expenses and keep afloat. Financial pressures are expected to persist in the short to medium term, as projections from the Office for Budget Responsibility indicate that household debt servicing and liabilities, as a percentage of income, are set to rise in the coming years.

## Consultation questions

1. Do you have any feedback on the following:

(a) Consumer debt outcome

Consumer Scotland welcomes the proposed consumer debt outcome. Having a single outcome which draws together the protections that exist for domestic consumers in energy debt in the supply licence and Standards of Conduct, and incorporating aspects of good practice guidance, should serve to set clear, defined outcomes and expectations on what good customer debt journeys look like. Finding an appropriate balance between principles-based and prescriptive regulation is always a challenge when trying to tackle specific consumer issues, but setting a minimum standard can provide a baseline for the standard of care and service that a consumer can expect to receive. We therefore support the development of a Debt Guarantee as a consumer-facing element of the consumer debt outcome.

In terms of monitoring the compliance with the consumer debt outcome, we agree that the list of metrics at 3.10 – including both supplier data gathered through Social Obligations Reporting and qualitative evidence provided by consumer groups and charities – is an appropriate starting point.

(b) Standardisation of ability to pay assessments

Taking into account a customer's ability to pay when setting debt repayment rates is a key step of the debt pathway. Debt recovery set at an unaffordable level prevents the consumer from being able to make repayments – which is a bad outcome for both consumer and

supplier – and only serves to compound existing difficulties. Through our role as consumer advocate and our engagement with the stakeholders in the advice sector, we recognise the concerns outlined in the consultation text that ability to pay assessments are not always fair, robust or consistent. The improved utilisation of income and expenditure tools is one potential solution here, and we therefore support consideration being given to how more consistent use of the Standard Financial Statement (or the Common Financial Tool in Scotland) could be used to improve outcomes. However, a degree of flexibility should be retained to ensure that suppliers can still respond to the varying needs and circumstances of their customers.

We would also welcome discussion about how this standardisation might impact those who work in the hidden or grey economy, with only cash and minimal digital records of their banking. HRMC estimates that around 8.8% of the UK adult population participate in the grey economy.<sup>i</sup> As the consultation states, suppliers may use pay conversations, income/expenditure forms, credit reference agencies, open banking and their own data - however most of these are not available for these consumers. These and other consumers groups may fall between the cracks in a standardised process and we would welcome discussion on how those kinds of consumers may be impacted by the proposal.

(c) Offers of repayment from credible third parties

We welcome the objective towards improved working between suppliers, and consumer groups and charities. In 2022, Consumer Scotland convened the Scottish Energy Insights and Coordination Group (SEIC).<sup>ii</sup> The group was a precursor to the current Energy Consumers Network and was formed of representatives of frontline advice bodies supporting energy consumers in Scotland. The group's report sets out the pressures the sector is subject to, with a large part of their demand being in relation to relatively straightforward energy retail issues. In turn, this can diminish organisations' ability to deliver core services - such as providing energy efficiency advice, or supporting consumers with the adoption of low-carbon heating technologies.

That being said, third parties such as consumer groups and charities are often more trusted by consumers than their suppliers, and it is understandable therefore that consumers often seek out advocacy from such services when navigating the debt pathway. Resource constraints aside, we therefore agree that suppliers should accept relevant information from the consumer's choice of third party representative. A voluntary commitment in winter 2023 saw industry commit to close working with debt charities and consumer bodies offering specialist advice and providing suitable solutions for customers in debt.<sup>iii</sup> This was a

positive step, but moves towards firming up this commitment in regulation should serve to produce better overall services, and ultimately, better outcomes.

(d) Third party authorisation

In line with the consumer principle of choice and consistent with the reasoning outlined in response to 1 (c), Consumer Scotland supports third party authorisation as a key aspect of representation in the debt pathway, whilst recognising that there is work to be done in finessing the process.

(e) Referrals between suppliers and consumer groups and charities

As outlined in the consultation text, the supplier licence includes a requirement to make consumers aware of debt advice services and to provide appropriate information on debt prevention and management. Referrals are a tool widely used by suppliers to ensure compliance with this requirement, and we recognise the consumer benefits that can be achieved when referrals are used appropriately. However, we remain concerned about the resource available to support consumers through this period of high debts and arrears, and we would welcome further discussion around warm referrals and potential adverse effects of these to third party organisations, when used inappropriately.

There are clear incentives for suppliers to offload some customer issues or difficult consumer situations to debt advice agencies. These incentives could include, for example, time pressures from supplier management on customer service agents to deal with a consumer in a set number of minutes, or poor resourcing of a supplier's customer support offering. We would welcome Ofgem setting out specific disincentives that can be put in place to reduce this issue of offloading by suppliers to the third sector. We look forward to the outcomes of the research being conducted on referral pathways, and would suggest the concerns outlined here are given due consideration.

(f) Dedicated phonelines

In response to the statutory consultation on consumer standards, Consumer Scotland called for the development of a minimum standard on the supplier provision of agency lines.<sup>iv</sup> Through engagement with stakeholders in the advice sector, we are aware of the recent challenges that some have encountered when attempting to contact suppliers and advocate on a customer's behalf. We advised that recognition of this in the licence code was welcome, but that the development of a minimum standard on the operation of such services would represent progress.

We would welcome Ofgem gathering data on the length of time taken for suppliers to engage with consumer representatives - to give a full picture of the current landscape. We would also continue to encourage the regulator to ensure the sector is adhering to the Contact Ease guidance,<sup>v</sup> to ensure that call wait times are appropriate for those advocating on behalf of consumers.

2. Do you have any feedback on whether we have prioritised the right options ?

Yes, we consider that the right options are being prioritised.

3. What are the benefits and costs to consumers, suppliers, and consumer groups and charities of each policy proposal? If you are able to, please provide evidence/estimates to help quantify these.

No comment.

4. Do you have any evidence or views on any of the following that could help inform next steps:

(a) Identification of financial and non-financial vulnerabilities

No comment.

(b) Making monthly billing the default

We support making monthly billing the default, as we recognise that this has the potential to improve the early identification of financial difficulty. However, in line with the consumer principle of choice, consumers should also be able to remain on quarterly billing if this is their preference – especially where the household does not have a history of payment difficulty.

(c) Reviewing the back-billing rules

Catch-up bills are widely recognised as detrimental to consumers and a contributory factor in the accrual of energy debt. The introduction of SLC 21BA was a landmark development in limiting back-billing to 12 months, except where the customer's behaviour had been obstructive or manifestly unreasonable. We agree that further reducing the back-billing

period could incentivise suppliers to ensure bills are accurate, and improve metering arrangements, as costs could only be recovered from a shorter period where at fault.

Responding to the energy price cap increase in January 2025, Citizens Advice called for back-billing to be limited six months for households with a smart meter, to further limit the impact of bill shocks.<sup>vi</sup> We support this call and would encourage reducing the back-billing limit for all billpayers to remain an ambition.

(d) Changes of tenancy

No comment.

(e) Domestic debt obligations and the Debt Assignment Protocol

No comment.

(f) Moving consumers in debt or arrears onto the cheapest tariff

No comment.

(g) Fuel Direct

Third party deductions for energy debt (Fuel Direct) was previously a popular alternative means of debt repayment for households that could not have a prepayment meter. It was also popular more generally for the consistency it offered the billpayer both in terms of paying ongoing usage and for the debt contribution – with a set amount being paid to the supplier for both at an agreed rate and regularity. However, consumers were not able to remain on Fuel Direct to cover their ongoing usage after the debt had been repaid – which was a source of frustration for many who wanted to stay on it – and there were compatibility issues with the deductions and Universal Credit. Therefore, we see potential value in Fuel Direct and would welcome the proposal for Ofgem to work with government, suppliers, and consumer groups and charities to consider ways to improve its administration and take up.

(h) Debt collection agencies

No comment.

(i) Court enforcement action

No comment.

5. What issues should be prioritised?

No comment.

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<sup>i</sup> <https://www.gov.uk/government/publications/the-hidden-economy-in-the-united-kingdom-wave-2-2022/executive-summary#nature-of-hidden-economy-activities-and-business-practices>

<sup>ii</sup> [Scottish Energy Insights Coordination Group Report \(HTML\) | Consumer Scotland](#)

<sup>iii</sup> [Energy suppliers commit to helping customers in debt - Energy UK](#)

<sup>iv</sup> [Ofgem statutory consultation on Consumer Standards | Consumer Scotland](#)

<sup>v</sup> [Consumer Standards - Statutory Consultation | Ofgem](#)

<sup>vi</sup> [Number of people seeking help with energy bills up by 20% last year | Energy bills | The Guardian](#)