

Consultation Response

Debt Relief Scheme: Statutory Consultation

Ofgem

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About the Debt Relief Scheme

Energy debt can have serious consequences for older people. Many live on low, fixed incomes, which can make large or unexpected bills difficult to manage, while spending more time at home or using medical equipment increases energy use. Reducing heating to manage debt can raise risks of hypothermia or respiratory problems, and lower digital literacy or social isolation can make it harder to access support or engage with repayment options.

Many older people choose to cut back on their energy consumption to avoid debt or minimise their personal debt levels, but high levels of debt among the general public mean that they still have to contribute a significant amount towards the socialised cost of energy debt. For older people paying by standard credit, the socialised cost of debt costs around £150 per year. Recovering unpaid bills through higher prices reduces their disposable income, increasing financial pressure on households with limited flexibility and driving more severe self-rationing behaviour.

Ofgem are exploring the creation of a Debt Relief Scheme, which, under current proposals, will operate under two phases. Phase 1, expected to begin next spring, will offer debt write-off to households on means tested benefits with debt that accrued during the energy crisis period (defined as 1 April of 2022 to 31 March of 2024). The debt write off will not include contributions that have already been made towards repaying the debt.

About Age UK

Age UK believes every older person should be included and valued. We're working locally, nationally and internationally to change the way we age. Together with our partners, we're changing the day-to-day experience of getting older through essential services and local support. In the UK, the charity helps more than seven million older people each year by providing advice and support, including through our national advice line and our friendship services. It also researches and campaigns on the issues that matter most to older people, aiming to put older people at the heart of public policy and shift the way ageing is treated and represented.

Introduction

Age UK strongly supports Ofgem's efforts to address the energy debt crisis and welcomes the development of this one-off debt relief scheme as a positive and much-needed step. The principle of helping households escape unmanageable energy debt is fair. It is also right for the market, for which record levels of debt and arrears are creating significant costs for suppliers and therefore consumers. For consumers, paying by Standard Credit the socialised cost of debt is around £150 per year. Ongoing high energy costs exacerbate this issue, since many older people are already struggling to afford their essentials, and cannot afford additional costs to be added to their bills.

As supporters of this work, we also have some concerns that the scheme as currently framed may not go far enough. Without bolder action, in the form of a proper debt reset, and a clearer commitment to addressing the root causes of energy debt, too many vulnerable households could remain trapped in hardship despite the introduction this scheme.

Further thoughts on individual components of the scheme can be found below.

Consultation questions

Consumer eligibility

Age UK supports the proposed eligibility criteria specific to consumers. Because Phase 1 will be strictly targeted at households on means-tested benefits, the eligible population is likely to be made up of many households facing hardship. It does, however, omit those who are eligible for but not claiming their benefit entitlement, meaning that those experiencing the deepest hardship may well find themselves ineligible.

Age UK believes that being able to deliver the debt relief scheme through data matching is critical for ensuring support reaches a higher number of households, as the only alternative would be to have an application-based approach, which could create significant barriers to accessing support. So, Age UK accepts that the use of means tested benefit for eligibility is a necessary compromise in the absence of income-based data matching.

Time limited eligibility for debt

Age UK believes that that limiting eligible debt to the timeframe between 2022 and 2024 carries some risk of undermining both the fairness and effectiveness of the scheme.

The basis for Phase 1 is clear: means-tested benefit receipt evidences low income, and engagement shows willingness to work with suppliers. This dual requirement ensures relief is targeted only at those most likely to be unable to pay, addressing concerns about moral hazard, and in many cases may generate positive engagement between consumers and suppliers in the future, preventing or mitigating another build-up of debt.

However, defining an eligibility period, where only debts accrued within a certain timeframe are eligible for relief, is imposing limits on the positive impact the scheme can have.

A household on benefits with £1,000 of arrears accrued since 2021 may be in no less hardship than a household with £1,000 of arrears accrued since 2023. Both may be able to demonstrate need, yet one would receive more support under these proposals than the other. This creates inequities between similarly situated households and means that the debt scheme won't deliver the necessary reset for some households.

We recognise Ofgem's need to manage overall scheme costs and ensure fairness to all consumers. We also recognise that one of the most difficult challenges with delivering the DRS is to ensure fair outcomes through the supplier reimbursement mechanism, which will avoid the creation of perverse incentives for poor debt management practice. So long as the debt relief scheme will be a one-off scheme, Age UK believes that the priority should be to achieve a true "reset" of the energy debt landscape. To do that, we believe Ofgem should maintain a focus on consumers most in need of support but remove the limiting criteria for arrears accrued during the 2022 to 2024 period.

Calculating eligible debt

There are some scenarios where we worry that consumers who should be eligible for DRS support will miss out as a consequence of the process for identifying eligible debt. We feel the most likely reason for this is differences in how energy suppliers record debt on consumer accounts. A dual fuel consumer may be supplied by the same supplier for both fuels yet have two accounts on that supplier's billing platform. It is unclear what should happen if, for instance, a consumer has £99 of eligible debt on each fuel, and how Ofgem will ensure that suppliers have correctly identified eligible consumers.

Additionally, if a consumer is changed onto a prepayment meter after being moved off a credit meter because of falling behind on payments, it is also unclear how the current energy supplier would be able to verify how much of that debt was accrued during the eligible period.

While these may be a minority of cases, Age UK believes that for the scheme to be fair and effective, Ofgem should consider how to incorporate these scenarios into the design of the scheme. We believe there are two potential ways to address these concerns. One is that suppliers could be required to do another identification exercise at some point during the scheme, at which point there may be feedback from charities, consumer groups, and suppliers on consumers that have been missed but should be eligible for DRS support. Alternatively, Ofgem could consider establishing an appeals process where a small number of consumers, or charities on their behalf, could flag that they've been missed.

The engagement criteria

Age UK supports the proposed engagement criteria and welcomes Ofgem's efforts to reduce barriers to accessing support through this scheme.

Conclusion

Age UK supports the introduction of the debt relief scheme. In our engagement with Ofgem, we have highlighted that we feel the time period imposed on what is considered eligible debt is a limitation of the scheme, and reduces fairness as well as the extent of positive consumer outcomes. Outside of the time period for eligible debt, we believe the current proposal for the debt relief scheme is good overall and will help with efforts to tackle high levels of consumer debt. There are some ways in which the debt relief scheme could be improved, such as a process for capturing consumers who were not originally identified as eligible for support.

Our primary recommendation is that households meeting the Phase 1 criteria should be eligible for relief on **all of their energy debt**, minus any contributions that have already been made, not just that accrued within a narrow timeframe. This would:

- Deliver a true “reset” for struggling households, rather than leaving them with unmanageable legacy arrears.
- Ensure fairness between consumers, avoiding arbitrary cut-offs.
- Simplify administration, as suppliers would not need to split and categorise debts by accrual date.

If entitlement is established on the basis of means-tested benefit receipt and engagement, it should extend to all arrears a household holds. This is the most consistent, fair, and effective way to achieve the scheme’s aims.