Clear
CONSULTANCY SERVICES

Supported by

Impact on Urban Health

Supporting Households in Energy Debt

The role of debt advice, the energy sector and government

February 2025

Executive summary

Introduction

Gas and electricity prices have increased rapidly over the past few years, driving consumer energy debt to record levels.

In fact, consumer debt and arrears to energy firms totalled £3.8 billion in September 2024[1], a 118% (£2.1 billion) increase since September 2021, impacting more than 3.4 million consumer accounts in Great Britain[2]. As a result, millions of people have been forced to live in cold, damp conditions and cut back on essential costs such as food.

According to research conducted by the Institute of Health Equity, cold homes can both cause and worsen respiratory conditions, cardiovascular diseases, poor mental health, dementia, hypothermia, and problems with childhood development[3]. Equally, poor health makes people more susceptible to financial difficulty and because of the impact of mental and physical health conditions, less likely to seek, or be able to access, support services[4].

The Money and Pensions Service estimates that more than 8 million people need debt advice and over 12 million more live on the edge[5]. This means that 39% of the UK population either need debt advice or are at risk of needing it soon. Whilst debt advice agencies suggest that demand for debt advice is growing rapidly, largely driven by deficit budgets and increasing household bill debts[6].

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1 Ofgem Debt and Arrears Indicators

2 ibid

3 Institute of Health Equity Fuel Poverty and Cold Homes

4 Impact on Urban Health Health and Money Research

5 MaPS Need for Debt Advice Research

6 StepChange 2023 Annual Report and Scottish Government The Cost of Living and the Effects on Debt

Clearly, debt advice agencies provide an essential service. However, the existing funding model for debt advice does not reflect the drivers of debt and the work that today's advisers must do. The sector relies on a funding model which was designed in 2011, after the financial crisis, and implemented in 2012, creating a compulsory levy on financial services firms. Since then, the make-up of debts seen in debt advice has changed markedly, with household debts constituting a much larger proportion. Whilst the number of clients with deficit budgets has also increased significantly.

In December 2024, the energy sector regulator Ofgem published a Debt Strategy, which recognised the negative impact of high levels of consumer debt and the need for better and more consistent support for people behind on their bills[7]. If the strategy proposals are implemented, some consumer debt will be written off and energy firms will be expected to provide higher standards of support for people in debt.

This study provides evidence that supports some of Ofgem's proposals, and highlights areas where they need to go further.

In April 2024, Impact on Urban Health commissioned Clear Consultancy Services to analyse the impact of higher energy debts on individuals, households, and the debt advice sector[8].

The aims of the study were:

1. To investigate the experiences of people who are unable to pay their energy bills and the impact that such debts have on their lives.
2. To establish how energy firms and the debt advice sector work together to resolve people's debt issues and whether improvements can be made.
3. To investigate whether the debts seen in debt advice are proportionate to the funding each creditor sector provides.
4. To establish whether there is a case for certain creditor sectors, notably energy, to increase the funding that they provide, and if so to explore how that could be achieved.

This executive summary is split into two parts. In part one, we outline our findings and our recommendations for supporting people with energy debt. In part two, we outline our findings on debt advice funding and our recommendations for how debt advice should be funded.

7 Ofgem Debt Strategy

8 In the context of this report, debt advice is defined as services delivered free to clients that meet the definition within the Financial Conduct Authority's (FCA) regulatory permissions for debt counselling and debt adjusting

Key terms

Please note that different terms are referred to throughout this study.

These include:

- Energy debt: money owed by consumers to energy firms that has existed for more than 91 days.
- Consumer debt: the amount of money owed by people for things they have bought or consumed, but not yet paid for. This may cover a variety of debt types.
- Household debt: money owed on household bills and costs, such as Council Tax, rent, and utilities. These are often referred to as priority debts in the debt advice setting.
- Priority debt: a term used in the debt advice sector which refers to the debts which should be dealt with first, including those which can lead to loss of home, loss of essential goods or services or can result in conviction if not paid.
- Deficit budget: a financial circumstance, established by a client and a debt adviser, where the client's income is less than their total essential outgoings.
- Clients: a term used by the debt advice sector which refers to people who have used, or are in the process of using, debt advice services.
- Consumers and customers: people who use services, such as energy firms.
- Individuals and people: both terms are used in this study to refer to common characteristics or circumstances, rather than in the context of services or providers that they use.

Methodology

The support system for people struggling with energy prices can be considered as having three components:

1. Measures aimed at improving the affordability of bills.
2. Measures aimed at supporting consumers who are struggling to pay.
3. Ensuring the availability of free, independent debt advice to help people who end up in serious difficulties despite the first two sets of measures.

Significant research and policy work has been carried out into the affordability of energy since February 2022. This study has deliberately sought not to duplicate existing evidence or campaigns in this area, but rather to focus on the impact that the energy price crisis has had on **consumers in debt** and on the **debt advice sector** (covering components 2 and 3 mentioned above). The geographical scope of the work is Great Britain, aligned to Ofgem's remit and scope.

The following evidence was gathered as part of the study:

- Data from the largest providers of debt advice in Great Britain about the number and value of the debts their advisers advised on in 2022-23 and 2023-24.
- More than 60 interviews with debt advice organisations, energy suppliers, charitable trusts, consumer advice and research organisations, government bodies, and regulators. The interview questions explored organisational experiences, policies, clients' experiences of energy price increases, and advisers' experiences of trying to resolve debt problems. These interviews incorporated both national organisations and local community-based organisations. Interviewees included front-line advisers, service leaders, and policy experts.
- New research by the Money and Mental Health Policy Institute, undertaken specifically to support this work. Money and Mental Health surveyed their Research Community of people who have experienced mental health problems in relation to energy debts and support received from energy companies.

Findings - energy debt

Energy is the fastest growing type of debt presenting at debt advice services in Great Britain, both in volume and value. The number of energy debts advised on by the biggest advice agencies rose by 5.2% between 2022-23 and 2023-24, and the value of energy debts rose by 33%. Energy will continue to be a major cause of problem debt in future years even if prices stabilise, as there is a natural delay between an increase in prices and the resulting debts reaching debt advisers[9].

Debt advice agencies reported seeing an increase in people with energy debts, alongside increasingly complex circumstances.

In the stakeholder interviews, they noted that the following groups of people are more susceptible to significant issues relating to energy debts:

- People with health conditions (e.g. those who need energy for medical equipment or are housebound or immobile)
- Single parents
- Those with a 'deficit budget'
- Older people who struggle with the digital communications often required by energy firms
- Single people
- Private rental tenants
- Black people
- Disabled people
- People who have an 'off-grid' energy supply

9 House of Commons Briefing Domestic Energy Prices

In line with previous findings[10], these groups often have limited financial resilience, some have higher energy needs, and overall, they are more likely to experience barriers to accessing support. This makes them particularly susceptible to the multiple effects of rising energy bills. Within these groups, poor housing was strongly correlated with poor health and poor financial wellbeing, whilst energy debt was clearly linked to all three.

There are no significant differences in the levels or causes of energy debt between the nations of Great Britain. There are policy-driven differences in the support available, and distinctive issues faced by rural communities across all three nations. However, the scale and nature of the issues linked to energy debt are broadly consistent across England, Scotland and Wales.

Findings - accessing help and the standards of support

Fewer than half (46%) of respondents to the Money and Mental Health survey who were struggling with their bills got in touch with their energy provider about their difficulties. The main reason given was that their mental health made it hard or impossible to engage with the available communication channels.

Of those who had contacted their supplier, nearly half (46%) said that they had not received any support as a result. This perpetuated problems with paying energy bills and forced people into a situation where they had to make serious trade-offs, like choosing whether to eat or heat. This in turn further affected their mental and physical health.

In the interviews, debt advisers reported their clients experiencing:

- Long waits for calls to be answered, resulting in disengagement.
- Inflexible communication options (e.g. phone only, or web chat only).
- Complex, inaccessible, and inadequate financial support schemes.
- Energy firms not complying with the spirit or letter of the rules in place to protect people struggling to pay.
- Threatening communications from suppliers.
- A lack of help if English was not their first language.

The majority of debt advisers in the study said that energy suppliers are the worst, or one of the worst, categories of creditors that they deal with.

Issues included:

- Long waiting times to speak to staff at energy firms, meaning that they could not provide advice in a timely way or make other calls for their clients.
- Written communication being ignored.
- Difficulty accessing specialist teams that assess and decide clients' eligibility for additional support.
- Energy firms not accepting advisers' authorisation to act for a client.
- Energy firms rejecting debt advisers' repayment offers, even when these were made following standard industry budget assessments.
- Energy firms displaying a lack of engagement and understanding of consumers' wider financial and personal circumstances.
- Advisers reported that it was challenging to get accurate debt and billing information from energy firms, and this made accurate and successful debt advice more difficult to give.
- Widely inconsistent service standards and decisions between, and even within, energy companies.

10 National Energy Action Fuel Poverty Monitor Report, Institute of Health Equity Fuel Poverty and Cold Homes, One Parent Families Scotland Impact Report Pre-Paid Meters and Self Disconnection, Friends of the Earth Policy Who's impacted by fuel poverty in 2023? | Policy and insight, Huffington Post (Can We Talk About The Cost Of Being Single Right Now?)

Debt advisers' experience with the energy sector was negative overall, but especially amongst advisers in community-based services. Community-based services are more likely to provide greater support and advocacy for people with complex needs, as well as people who do not proactively contact energy firms or other advice services. Debt advisers were also very critical of the practices of water companies and local authorities.

Consumer and adviser experiences suggest that support for people falling behind with bills is often inadequate and may exclude those who need it the most. There are issues for both consumers and advisers with identifying and understanding support schemes due to illogical qualification criteria and complex delivery processes. Furthermore, those most in need are often least able to access help. For example, many support schemes exclude people when they have more than a certain amount of debt, often in the region of £1500 - £2000.

Excellent practice does exist in parts of the energy industry but is not consistent. There are good examples of tailored support for customers and effective partnership working between energy firms and debt advice agencies. However, these are not consistent and particularly community-based debt advice agencies often find it harder to work in partnership with energy firms. The existing good practice shows that improvement is possible across the sector and can lead to better customer service, better engagement levels, and more sustainable repayment.

Ofgem's priority and focus on improving service standards for people in debt is welcome. Ofgem's recent publication on debt standards reports many of the same shortcomings as this study. Its proposals for a debt 'reset' will, if implemented, provide welcome relief to many consumers whose debts have arisen or worsened during the price crisis.

But the experiences of debt advisers and their clients suggest that Ofgem and energy firms could be doing more in specific areas:

- There is a marked difference between the experiences of people in debt and the overall consumer base. For example, the Citizens Advice Energy Supplier Report notes average call wait times of 30-180 seconds for the largest 16 providers. However, advisers and consumers report waiting for hours. This suggests a specific regulatory investigation is needed based on specific data for this segment of the caller base.
- The framework for financial and other support for people struggling to pay energy bills is complex, fragmented, and too often fails to stop people in debt falling through gaps. It can trap them into financial difficulty and worsen their mental and physical health.
- The debt advice sector, especially community-based services, needs a more positive and collaborative relationship with energy firms which generates collective solutions to shared problems. Other creditor sectors should consider adopting similar approaches.

Recommendations for supporting people with energy debt

1. Ofgem needs to spearhead a change in how the energy sector supports people in debt.

This should be based on energy firms providing coherent financial support for people struggling to pay, from the earliest payment difficulties to the most severe debt problems – alongside the proportionate funding of independent debt advice.

Building on its Debt Strategy proposals, Ofgem should aim to stimulate a culture which:

- Recognises that the best financial and health outcomes are achieved by a holistic approach, acknowledging that customers often face multiple debts across different sectors, and support should address their overall financial situation rather than focusing solely on energy bills.
- Delivers higher, and universally delivered, minimum regulatory standards for customer support.
- Goes beyond just identifying vulnerable consumers and works towards providing effective targeted support.

2. A more constructive and effective relationship between the energy sector and debt advice sector should be developed.

As a first step, the Secretary of State for Energy Security and Net Zero should convene a joint forum between energy firms and the debt advice sector with Ofgem sustaining this forum in the medium term. In the longer-term, we expect the different sectors themselves to increasingly own these relationships, and adapt and evolve them to meet emerging challenges. The benefits of greater collaboration include: better engaging consumers, securing more sustainable payment arrangements, helping consumers more holistically, and reducing and removing resource wastage for both energy firms and debt advice agencies.

3. Ofgem should conduct a thematic review of the experiences that people in debt and debt advisers have when they interact with energy suppliers.

This should explore why their experiences are so different from those of consumers overall[11]. It is concerning that this study has found that consumers with the greatest need for help may be experiencing the brunt of poor conduct. Establishing evidence specific to people in debt and debt advisers, that builds on this study, will inform appropriate next steps.

4. Ofgem should undertake a consumer-centred review of the debt pathway.

This should cover the end-to-end experience for consumers, from when payment difficulties start, entering debt and debt advice, and through to resolution. The aim should be to identify the tipping points and gaps that exist which result in support failing to stop some people from falling into deeper difficulties. Establishing the specific end-to-end experience of consumers who are in debt would highlight how their experiences differ from the average. It would identify opportunities to improve support, inform appropriate regulatory incentives, and highlight good practice. While details of the "debt reset" policy are not yet settled, it seems likely that it will move many people from one place on the debt pathway to another, with the potential for people to face abrupt changes in eligibility for different kinds of support. Ensuring that the pathway works smoothly is even more important in this context.

11 Such as Ofgem Consumer Confidence 2024 and Energy UK Vulnerability Commitment, which highlight significant improvements in service levels.

Debt advice funding – the link between energy firm practices and debt advice funding

The direct debt alleviation proposed in Ofgem's "debt reset"[12] is welcome and has a place in addressing the escalating energy debt problem seen by debt advisers. However, if implemented the proposals will tackle only £0.5 – 1 billion of the £3.8 billion total accumulated debt. It is key that the alleviation proposals are not seen as a substitute for debt advice, which deals holistically with people's debts and financial difficulties. Furthermore, the proposals could increase the workload for advisers, who often access debt relief mechanisms on behalf of clients[13].

Alongside the overall scale of energy debt, it is clear that energy companies, through poor processes and inconsistent support, increase the cost of providing accurate advice, compounding the challenge of tackling energy debt.

Debt advice funding – findings

Current levels of debt advice funding only supports a minority of those who need advice to access it. The number of people receiving advice (around 2 million a year) compares to around 8 million in need[14].

Debt advice is becoming harder and more expensive to deliver. The funding of debt advice does not reliably scale or adapt to the main drivers of how long it takes advisers to serve clients. These include the number of debts, especially priority debts, the number of creditors, as well as the client's individual circumstances, such as emergencies like court action / disconnection threats that require urgent action.

It is therefore time for a fresh look at how debt advice is funded. Data gathered for this study gives new insight into the debts being managed by debt advisers and their clients. It supports the case for change in the way creditors fund debt advice.

Data from debt advice providers identified around £161 million of funding[15] supporting debt advice in 2023-24. Around £8 million of this is specifically linked to delivering statutory debt solutions, leaving around £152 million for advice giving[16].

The number of people receiving advice per year - around

2 million

The number of people in need of advice - around

8 million

12 Ofgem Debt Reset

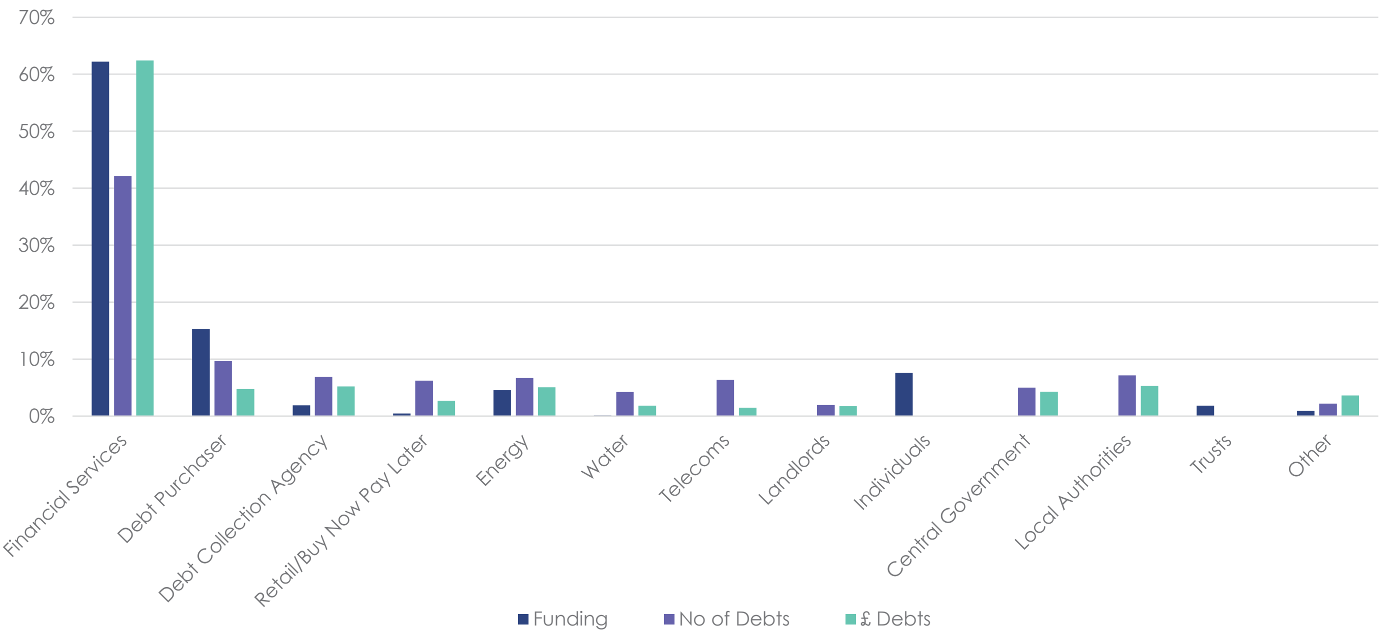
13 Even if Ofgem pursue options without a formal role for debt advisers, the changes will give rise to significant re-working of the debt plans and solutions in place for clients who receive relief, adding to adviser workload.

14 MaPS 8 million people need debt advice and 12 million are living on the edge

15 Data obtained from 6 large debt advice providers. Please note this excluded funding from local authorities to local debt advice services and the delivery of services by local authorities themselves.

16 Figures do not sum due to rounding.

Debt advice funding and debts by sector 23/24



The data includes 2.75 million individual debts that were presented to advisers in 2023-24, with a total value of £5.8 billion.

Household bill debts account for between 35% and 58% of the debts presenting at debt advice by number and between 25% and 38% of debts by value[17]. This is a transformation in the debt landscape since 2011, when the assessment was made about how to structure the current funding framework. This assessment dismissed the idea of including household debts in the funding model because such debts were estimated to constitute less than 1% of total debt[18]. This is not a temporary change and not specific to energy alone. The increasing proportion of 'household' debts, such as energy, water and Council Tax is now a long-term trend.

The debt advice funding framework is outdated and widely criticised as being 'unfair'. There is little alignment between the number and value of debts seen by debt advice agencies from certain sectors, and funding from those sectors to address them. Currently, only the financial services sector is mandated to fund debt advice. While the energy sector contributes more to free debt advice than is commonly perceived, its contributions are voluntary and limited to a small number of advice agencies, with no long-term guarantee of continuation.

17 The ranges arise depending on whether Buy Now Pay Later (BNPL) is included in financial services or in retail and depending on the composition of debts allocated to debt purchasers and debt collection agencies. BNPL is not yet a regulated financial service, but is likely to become one following current consultation. We were unable to obtain data on the composition of purchaser and collection agency debts.

18 London Economics Funding Debt Advice in the UK

Recommendations for funding debt advice

5. Government should introduce legislation to deliver a new funding model for debt advice. This should compel all significant creditor sectors to contribute via new levies or by expanding and adapting existing schemes.

This could be implemented across all key sectors via new primary legislation for specifically this purpose, or it could be implemented sector by sector as legislative opportunities become available. Delivering this new funding framework would ensure a more proportionate approach to funding that would flex with future changes in debt patterns, providing more secure and sustainable funding to the debt advice sector.

6. MaPS and the FCA should be instructed to work with the debt advice sector, the devolved administrations, and key creditor sector regulators to develop a new debt advice data strategy.

This would inform the operation of a new funding model. It should incorporate, as a minimum, data about debts treated, funding received, and the outcomes achieved by advice.

7. The energy sector should be prioritised in implementing a new funding model.

This is because of:

- The rapid growth in the size and prevalence of energy debts.
- Energy firms' conduct towards consumers in debt and debt advisers, which is materially increasing the cost of delivering advice.
- The potential impact on debt advice services of Ofgem's debt reset proposals.

To deliver funding from the energy sector, there are existing schemes that could be adapted as an alternative to a new levy. These include the levy that funds the Citizens Advice's statutory consumer watchdog role and the industry initiatives component of the Warm Home Discount Scheme. Such schemes would need to be expanded, not reallocated, to fund debt advice alongside their existing objectives.

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