

Resetting the Energy Debt Landscape

Response from Citizens Advice Scotland

Key points and introduction

The case for an energy debt relief scheme is inarguable. Only bold, targeted and urgent action will begin to undo the harm that far too many are facing. Historically high energy prices have forced people into energy debt and arrears. Evidence gathered by the Citizens Advice network in Scotland shows that energy debt imposes high levels of physical, mental and emotional harm on people. It leaves people feeling anxious about their financial future and worried about using gas or electricity for everyday essentials like heating homes, cooking or bathing. The insights our network has gathered shows that energy debt creates added stress to people who are struggling with low incomes, ill health and other vulnerable situations. This situation is unsustainable and unjust. **Citizens Advice Scotland (CAS) calls on Ofgem to implement a debt relief scheme as an urgent priority.**

The key points in this response are:

- Ofgem should introduce a debt relief scheme urgently.
- Ofgem should engage the UK Government to obtain funding for an enduring debt relief scheme that supports people in energy debt after Ofgem's proposed measures end.
- Ofgem should explore establishing a pre-approved level of support that allows organisations to build capacity before delivering the scheme.
- The scheme should include debt-matching and debt write-offs.
- We do not support Ofgem's suggestion that only debt and arrears accrued between 1 April 2022 and 31 March 2024 should be eligible for relief.
- Setting a minimum level of indebtedness risks excluding people who need debt relief.
- Ofgem should use multiple affordability proxies. Using only Warm Home Discount presents particular problems in Scotland.
- Access to the scheme should not be conditional on making previous payments.

The scale of the energy debt challenge is massive. Data from the Citizens Advice network in Scotland shows:

- In 2023/24 - the latest year for which data is available - the average energy debt that people bring to their local Citizens Advice Bureau (CAB) was **£2,500**.
- Worryingly, this figure is **8% higher** than the previous year.
- The average energy debt per person stands at **£3,130 in rural areas in Scotland**, which is **30% higher** than the average energy debt overall.

- Just **over 1 in 4 (26%)** of people who present a debt to a CAB have energy debt.
- From 1 October to 31 December 2024, CABs helped over 1,100 people with energy debt advice.
- Our Extra Help Unit (EHU), which provides GB-wide support to people with complex energy problems, deals with urgent debt cases every day. Between May 2022 and November 2024, the EHU handled over **77,000 domestic** cases across Great Britain. **Just under 3 in 4 (74%)** of these cases fall under the debt management, affordability and disconnection case management categories.

Our evidence confirms that the energy debt situation is worsening and shows urgent action is required.

The wider energy affordability and fuel poverty context in Scotland bolsters the rationale for an energy debt relief scheme. New Scottish Government figures indicate that 34% of Scottish households – equivalent to 861,000 households – are in fuel poverty. That figure is an increase on the previous estimate of 31%.

CAB advisers and EHU caseworkers give lifechanging advice but demand for our services is at breaking point. The consultation acknowledges that organisations like the Citizens Advice network in Scotland face huge demands for support already. Ofgem must be clear that organisations taking part in a debt relief scheme will experience a surge in demand. That risks people who need support missing out because services are too stretched to help them. Involving consumer groups and charities places the onus of fixing a broken energy market on organisations that are already pressured and under-resourced.

This one-off intervention will not eradicate the energy debt problem. Without ongoing support, funded by the UK Government, households will build up debt and arrears again. This support should take the form of a longer-term debt relief scheme that operates after Ofgem's proposed intervention ends and the introduction of a social tariff to address affordability problems. **CAS wants Ofgem to engage the UK Government with a view to securing enduring help for people struggling with energy debt.** We also reiterate our call for a social tariff in the energy market. A social tariff represents part of the systemic change required to help people living on the lowest incomes afford energy and reform a dysfunctional energy market.

Scheme considerations and objectives

CAS agrees that **Ofgem should deliver this debt relief scheme as quickly as possible.** Additionally, we agree that the scheme should be open to people on credit and prepayment meters. We believe that delivering the scheme at pace is crucial. We take this view because of the harm that energy debt has imposed already, making financial support for people struggling with energy debt is essential. People who seek utilities advice from our network are more likely to be unable to work, unemployed and / or live in areas with the highest levels of deprivation compared to overall group of people who visit CABs. Between June and September 2024, 14% of those seeking general money management advice also received guidance on gas and electricity debt. This figure indicates that debt is rarely a single-issue problem. People visit CABs every day with complex and multi-faceted

debt issues. High living costs, insufficient incomes and inadequate support has left many households stretched beyond breaking point. **Financial assistance is crucial and cannot be replaced by efforts to improve suppliers' debt management processes.**

We are concerned by the suggestion that implementing a debt relief scheme may encourage people to avoid paying their energy bills in future. Our evidence shows that people who live with energy debt are experiencing genuine financial distress, rendering them unable to pay for necessities like gas and electricity. This is often coupled with physical and mental ill health as a result of the burden of debt. It is important to note that suppliers can also play a role in people accruing energy debt through inaccurate bills and unsuitable payment plans. We reject the idea that some people will avoid paying their energy bills in future because others have received desperately needed support.

Helen's situation reflects the circumstances that force people into energy debt. She took early retirement to care for her terminally ill husband, who subsequently passed away. Helen's income comes from private pensions, and she is eligible to receive only a very small level of support through the social security system. This situation put her under serious financial strain and Helen accrued energy arrears of almost £2,700. The impact of her husband passing away and the stress associated with debt has had a negative impact on her mental health. Helen's experience shows that energy debt reflects people living with energy high costs and low incomes rather than a decision to avoid financial obligations.

Debt relief scheme administration and delivery options

We note Ofgem's suggestion that there should be two routes to receiving support: one automated process in which suppliers identify and provide support to eligible customers; and another where people who do not meet the affordability criteria apply with the help of consumer groups and charities. This approach is well-intentioned and designed to mitigate the risk of people missing out on much-needed support. However, it is vital to recognise that such organisations, including the Citizens Advice Bureaux in Scotland and the EHU, are under extreme pressure already. Participating consumer groups and charities will do all that they can to support people but they need adequate resources will be essential to do so. Currently, the level of resource required to take part in the debt relief scheme is unclear. **We concur with Ofgem that there could be merit in pre-approving a level of funding commitment to allow charities to build capacity before delivering the scheme. Ofgem should explore this option and engage charities and consumer groups as it does so.**

Funding options

The debt relief scheme should include debt matching and outright write-offs. Debt matching will help people who have the capacity to pay something towards their debt. Others, including those who are unable to participate in debt matching because they have negative budgets should receive write-offs. Such households struggle to pay for ongoing energy consumption and cannot afford to repay arrears. Our latest data reveals that 1 in 2 people who received help from our network about complex debt issues and are carrying some level of energy debt also have a negative monthly budget. People in this circumstance need urgent financial support.

Jackie's experience highlights why there must be multiple forms of assistance within this debt relief scheme. After undergoing a major surgical procedure, Jackie became unable to work and lost her income. She had a shortfall in her disposable income of over £400 and accrued energy arrears of

£3,800. The shortfall in her income means it would be difficult – if not impossible – for her to afford a debt matching plan.

Eligibility and conditionality

CAS disagrees with Ofgem’s suggestion that only debt and arrears accrued between 1 April 2022 and 31 March 2024 should be eligible for relief. From 1 April to 31 December 2024, the CAB network in Scotland helped over 3,500 people with energy debt advice. This evidence indicates that the detriments linked to energy debt did not stop in early 2024.

Setting a minimum level of indebtedness as a criterion for accessing support risks excluding people who would benefit from debt relief. While an energy debt can look small in isolation, it can contribute to a much larger debt problem. Furthermore, seemingly small energy debts can represent a serious financial burden for people living on low incomes.

Clare attended her local CAB to get debt advice. Her energy arrears of £542 contributed to overall debts exceeding £6,500. Clare works in a low-paid sector of the economy, and she is trapped in a cycle of borrowing and repayment. Gaining access to energy debt relief would be an important step towards improving her financial health and more general wellbeing.

The scheme’s affordability criteria must be broad enough to ensure support reaches as many people as possible. Using Warm Home Discount (WHD) as the only affordability proxy is challenging, especially in Scotland. The design of WHD in Scotland relies on people who are eligible for help through the Broader Group to apply for support. Anyone who does not apply misses out on WHD support and would not be able to access the debt relief scheme if WHD is the only affordability criterion. Additionally, making WHD the only affordability proxy would exclude people who struggle with unaffordable debt but are not eligible for WHD support. **Ofgem should consider using multiple proxies to establish the scheme’s affordability criteria.**

We do not support including conditionality in the scheme design. Support should not be contingent on people having made previous payments. The reality for too many people is that they simply cannot afford the cost of energy. For example, between October and December 2024, the CAB network gave advice to 3,685 people regarding fuel vouchers and/or trust fund applications – equivalent to 40% of all demand for energy advice during this period. This data shows that energy affordability issues remain a huge challenge for people across Scotland. Targeting support at people who have made previous payments risks locking out others who cannot afford ongoing payments and need urgent debt relief. Moreover, making the debt-matching element of the scheme conditional on receiving debt advice will place further additional strain on consumer groups and charities.