NEA
Action for Warm Homes

POLICY PAPER

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The Gathering Storm: Utility Debt and COVID-19

The COVID-19 outbreak has already had a significant impact on household finances, especially those that already struggle with the costs of essential services.

But there is a bigger gathering storm. Existing debt issues within the water and energy sectors are being badly exacerbated by the current crisis, and whilst welcome, current provision is not adequate to deal with the scale of these challenges.

The responsibility for debt clearance is shared. It lies with the household with whom the debt is attributed but also with the companies with a vested interest in reducing debt levels, with the regulators and with government.

National Energy Action (NEA) has captured the impact of COVID-19 on the low-income and vulnerable customers that we support. The insight from those households demands immediate and longer term actions from governments, regulators and companies.

We conclude that without an adequate response, reductions in income paired with increased usage of essential utilities; energy bill shocks because lockdown has prevented meter readers from visiting properties; and a housing stock which uses far more energy than needed, will lead to a greater propensity for debt, increased hardship and reduced spending power when the crisis subsides. The impact of utility debt will badly affect customers' health, wealth and well-being. It will also impact companies' financial viability and be an on-going day-to-day drag on the economy, with money that could normally go towards paying for other goods or services to boost the economy, instead being used to pay off household debts.

This paper highlights immediate actions to address these issues. We call on utility suppliers to proactively contact their most indebted vulnerable customers urgently to ensure that they know about the support available. We highlight the opportunity and support the case for utility suppliers to access the shielded patients list (SPL) to directly provide debt relief assistance and wider support. We also call on Ofgem to immediately strengthen the monitoring and support arrangements for those at risk of self-disconnection and ensure suppliers apply consistent 'ability to pay' principles.

Alongside these and other quick wins such as extending and expanding existing schemes to help low income and vulnerable households with their energy bills (via energy advice and debt support), we call on government to consider more fundamental reforms and support payment matching schemes, sustain current uplifts in benefits and ensure debt advice is funded properly to help save lives.

Immediate actions to support indebted households

The coronavirus lockdown has had two significant impacts on energy and water consumers; increased usage and reductions in income. Ofgem has recently shown that over half of consumers say they are using more energy than normal for the time of year, rising to 75% in households with children.

Other analysis by Octopus Energy estimates[1] that household electricity usage has increased by an average of 4%, though some households, who they suspect are working from home, have seen an increase of up to 32%. Their average gas customer also has increased usage of 4% despite the milder weather and a quarter of their gas customers' usage has increased by as much as 20%. Waterwise also say that household water consumption has increased as more people have stayed home, with households using 15-20% more water.

Uswitch has also highlighted around 14 million households are heading for a £288 million energy bill shock because lockdown has prevented meter readers from visiting properties so current bills don't accurately reflect increased household power use[2]. Analysis by the Energy and Climate Intelligence Unit (ECIU)[3] has also demonstrated that, were the coronavirus lockdown to be continued or re-imposed during winter months, families in cold, leaky homes would face heating bills elevated on average to £124 per month, compared with £76 per month for those in well-insulated homes – a difference of £49 (£48.7) per month[4].

Even before the crisis, energy debt was a significant issue for customers and the energy industry[5]. In 2019, Ofgem reported that 1.3 million electricity customers and 1 million gas customers are repaying a debt to their energy supplier or are in arrears, figures that rose from the preceding year. In 2017, energy arrears amounted to £1.065 billion in total for Great Britain. In the same year, water arrears reached a total of £2.2 billion.[6]

The accumulation of these pre-existing and unsustainable debt levels has triggered some good practice in supporting indebted customers. In the water sector for example, the adoption of money matched repayment schemes is relatively common where every pound a heavily indebted customer pays off is matched; after six months, the pound is doubly matched; after two years all outstanding debt is written off. There are also good examples of payment holiday schemes for customers whose circumstances change, for example, by recently claiming Universal Credit. In the energy sector, the Warm Home Discount also provides some limited support for funding projects to help low income and vulnerable households with their energy bills, via energy advice and debt support, known as industry initiatives. Before the coronavirus crisis, this scheme was due to be reviewed for potential extension and expansion but the government has not yet set out plans for the immediate future of the scheme, which is currently due to close at the end of this financial year.

In response to the crisis, the government and energy industry moved quickly to agree and issue a joint announcement on protecting domestic energy customers during the COVID-19 crisis[7]. A similar commitment has also been made by the water sector[8]. Suppliers have agreed to identify and prioritise customers who are impacted financially as a direct or indirect result of COVID-19; to provide information, advice and guidance to customers on what help is available to access professional debt advice; to review bill payment plans; and to introduce possible payment breaks or potentially help reduce how much customers are asked to pay (or conversely, spread debt repayments over a longer period). In some cases suppliers are also providing support to access hardship funds to have debts written off.

Whilst these actions will help many resolve some immediate issues, often the most indebted customers are very reluctant to get in touch with their supplier and then ask for assistance. NEA staff members have reported long delays getting through to suppliers on the phone or suppliers limiting their interaction with customers on the phone, with some saying they are only taking 'emergency calls'. There is also a large variance in what different suppliers are providing for indebted customers. Coupled with low level of awareness that these options exist, there are concerns that without further interventions utility debt will continue to spiral. In response, NEA believes the following short-term actions are urgently required:

1. Utility suppliers should proactively contact their most indebted vulnerable customers

Recent Citizens Advice research found that only one third of prepayment meter (PPM) users knew about the additional support that was available. Instead of waiting for customers to contact them, suppliers should be proactively contacting customers via calls/text/letter to ensure that they know about the support available.

Regulators and suppliers can and should set out a clear proportionate benefits case for accessing the shielded patients list (SPL) to directly provide debt relief assistance and wider direct support.

2. Priority Services Registers (PSR) should include a specific financial vulnerability flag or 'needs code'

Many customers in the greatest need do not feature on company PSRs. Regulators should work together to amend the different PSRs to ensure that those in or at extreme risk of poverty are captured. This can and must be addressed urgently.

3. What counts as an 'emergency' issue must be clearly set out

To avoid debt build-up, essential service suppliers should set out what criteria they are adopting for 'emergency' calls and their call triage methodology/protocols for prioritising customer queries. Suppliers should also set out how customers without internet access or unable to resolve business-as-usual issues such as billing are able to contact their supplier and how soon their issues are likely to be addressed.

4. **Ofgem must strengthen the monitoring and support arrangements for those at risk of self-disconnection**

   Self-disconnection can be the most immediate and extreme expression of fuel poverty. But it is all too often hidden from sight. Plans to ensure suppliers monitor and help address risk of self-disconnection need to be stronger and should add a common standard for accessing emergency and discretionary credit to suppliers' licence conditions.

   Suppliers should also be required to provide suitable levels of emergency credit in advance of next winter, freeze standing charges for some prepayment customers, and have clear criteria for when to switch customers from PPM to credit mode (and when it should be prohibited from doing the opposite).

5. **Consistent 'ability to pay' principles within licence conditions across sectors**

   As debt levels rise, essential service regulators should work together to establish and implement 'ability to pay' principles within sector specific licence conditions. This must include how suppliers will support customers to access professional debt advice so that customers can check benefits entitlements before debt repayment plans are agreed or signpost appropriate income maximisation services when repayment plans are reviewed.

   Suppliers should also state which options they can offer to customers before debt repayment plans are agreed or when reviewing bill payment plans, conditions for possible payment breaks, and how they can help reduce how much customers are asked to pay or help spread debt repayments over a longer period.

Further reforms of utility debt and related pressing actions

Over the longer term, whilst existing debt write-off schemes and debt advice (in both energy and water sectors) are welcome, without Government support this assistance is unlikely to be sufficient. Unless addressed in a more co-ordinated way, the on-going impact of utility debt will not just impact on customers and companies' financial viability but it is also likely to be an on-going drag on the economy. At the time of writing this paper, there have been:

- over 2.7 million individuals submitting new claims for Universal Credit[9]
- over 7.5 million people furloughed as part of the job retention scheme[10]
- over 1.8 million mortgage payment holidays and over 1.1 million requests for payment holidays on credit cards and loans[11]
- over 2 million applications for self-employment government grants[12].

Personal debt is an issue for the household. As well as the obvious impact on budgets, for the household, there are serious implications on mental and physical health[13]. If households go into winter with energy debt, they may continuously ration their usage during the cold months. Living in cold, damp and unhealthy homes continues to cause shocking levels of unnecessary hardship and premature mortality. Across the UK, on average more than 10,000 people die each year due to living in a cold home[14].

Bad debt impacts energy suppliers - increasing the likelihood of supplier failure and overall increasing costs for customers, including those who suffer the debt, adding to the debt cycle[15]. If significant utility debt persists, it will impact on the whole economy, putting a downward pressure on households spending on local goods and local businesses. We have bitter experience of how household debt can negatively impact on the economy via the financial sector. Whilst universal credit has, on the face of it, become more generous[16], this has not been the case for all households, with reduced payments[17] due to the maintained benefits cap and the decision not to suspend advance payment deductions.

The UK Government has overall policy responsibility for personal debt, with high-level objectives to prevent debt occurring and to minimise the impact of personal debt[18]. Given the scale of the challenges customers are currently facing there is a need for the UK Government to consider wider interventions in the future to support the most vulnerable customers.

1. Government should bring forward its long awaited "Breathing Space" legislation

In order to reduce the impact of debt, the Government needs to give households breathing space, giving someone in problem debt the right to legal protections from creditor action while they receive debt advice and enter an appropriate debt solution.

2. The UK Government must extend and expand the existing Warm Home Discount scheme

In the energy sector, the Warm Home Discount provides limited support for funding projects to help low income and vulnerable households with their energy bills, via energy advice and debt support, known as industry initiatives. The focus on those in most severe financial need and in or at risk of fuel poverty makes it a uniquely valuable scheme.

Urgent clarity is needed on the extension of the WHD scheme from April 2021 and further improvements and a necessary expansion of the programme should also be implemented from April 2022.

3. The UK Government should fund for payment matching schemes

The UK Government should accelerate the repayment of utility debts by providing specifically supplementary funding for payment-matching schemes. This could be done through government payments towards a customer account, similar to fuel or water direct. This would, however, need to be separate from the benefits system to ensure that in-work households could access the support.

As a minimum, the government should ensure the consistent adoption of current good practices for money-matched repayment schemes and payment holiday schemes across both the water and energy sectors.

4. Debt advice will save lives and must be funded properly

Debt advice is underfunded. If personal debt levels increase as a result of the pandemic, so should Government funding available to provide debt advice to those who most need it, including speciality advice regarding fuel and water debt.

5. Delays and friction in application for benefit payments need to be addressed

DWP should work with BEIS to investigate the impact delays to apply for benefits payments and advances of payments are having on access to essential services. The increase to the universal credit allowance (and any further enhancement of income support measures, PIP or DLA) should be maintained or strengthened for low income households after the current crisis abates.

6. Address the impact of the crisis on wider policy making

The long awaited publication of the UK Government updated strategy to achieve statutory requirements to help fuel poor households is vital as progress towards this target is currently flat-lining and just in England 200,000 of the poorest households still need to spend £2000-£2800 per year keeping warm. The development of a strategy to end water poverty should also be considered a priority action to help address debt levels for the poorest customers.

Enhancing domestic energy efficiency is also crucial to stop needless expenditure on essential services. In particular, the Conservative Manifesto contained welcome proposals for addressing this long-neglected area; including pledging £3.8bn on a Social Housing Decarbonisation Fund and £2.5bn on a new Home Upgrade Grant Scheme (HUGs) in fuel poor homes. The welcome proposals were reaffirmed in the Queen's Speech. They must be committed to within the next major fiscal event of the year, the Government's upcoming Infrastructure Strategy, wider plans for the recovery and the next Comprehensive Spending Review.

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Endnotes

1 https://octopus.energy/blog/domestic-energy-usage-patterns-during-social-distancing/
2 See: https://www.yourmoney.com/household-bills/millions-of-households-face-energy-bill-shock-by-not-reading-meters-during-lockdown/
3 See: https://eciu.net/news-and-events/press-releases/2020/energy-bills-for-families-in-leakiest-homes-to-surge-during-winter-lockdown
4 For more information visit: https://eciu.net/analysis/reports/2020/lockdown-in-leaky-homes
5 The overall number of customers in debt increased by 4.2% in electricity and 4.8% in gas in 2018.
6 Figure 6 in the NAO report "Tackling Problem Debt" https://www.nao.org.uk/wp-content/uploads/2018/09/Tackling-problem-debt-Report.pdf
7 For more information visit: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/873960/Supplier_Agreement_19.3.2020.pdf
8 https://www.ofwat.gov.uk/regulated-companies/markets/business-retail-market/information-on-the-water-industry-and-coronavirus-covid-19/
9 DWP UC Management Tables (1st March – 12th May 2020) - https://www.gov.uk/government/publications/universal-credit-declarations-claims-and-advances-management-information
10 As of 14th May 2020 - https://www.statista.com/statistics/1116638/uk-numberof-people-on-furlough/
11 As of 22nd May 2020 - https://www.moneysavingexpert.com/news/2020/03/ uk-coronavirus-help-and-your-rights/
12 As of 18th May 2020 - https://www.bbc.co.uk/news/business-52710803
13 https://www.moneyandmentalhealth.org/money-and-mental-health-facts/
14 Over the last 5 years, there has been an average of 35,562 excess winter deaths. NEA estimates that approximately 30% of these are attributable to the impact cold homes have on those with respiratory and cardio-vascular diseases and the impact cold has on increasing trips and falls and in a small number of cases, direct hyperthermia. This is in line with estimates made by the world health organisation - http://www.euro.who.int/__data/assets/pdf_file/0003/142077/e95004.pdf
15 The costs of bad debt fall proportionately on those customers who suffer from debt. Being in debt costs suppliers more, and this is paid for by those who are in debt. https://www.ofgem.gov.uk/system/files/docs/2018/09/appendix_6_-_operating_costs.pdf
16 https://www.gov.uk/government/news/chancellor-announces-workers-support-package
17 https://www.independent.co.uk/news/uk/home-news/universal-credit-coronavirus-mother-sunak-benefits-cap-leigh-day-a9519271.html
18 https://www.nao.org.uk/wp-content/uploads/2018/09/Tackling-problem-debt-Summary.pdf