Consumer Energy Debt in Scotland

A research project for the Energy Consumer Commission

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Energy debt is one of the four themes the Energy Consumers Commission (ECC) is committed to addressing in 2021. Compared to fuel poverty, energy debt, which includes electricity use in addition to energy used for heating, is prioritised less in research, policies and strategies. The aim of this research was to provide a comprehensive view of the current knowledge on energy debt in Scotland, and to highlight options for improving outcomes for consumers. The research focused on the following themes:

- Regional differences in energy debt in Scotland (e.g. unregulated fuels and off-gas areas).
- Barriers to consumers' ability to mitigate energy debt.
- How the experience of energy debt has changed through time.
- Other types of debt and how they relate to energy debt.
- The impacts of COVID-19 (and Brexit).
- Examples of good practice in protecting against or alleviating energy debt.

The research consisted of a literature review, interviews with stakeholders, energy providers (mostly unregulated fuels) and householders with energy debt experience, and a data review. The findings are presented broadly according to the themes mentioned above. In addition, a schematic detailing how households incur energy debt after one or more income shocks following adverse events is introduced at the beginning of this report.

Key findings

Research and data

- Compared to fuel poverty, surprisingly little data and research on Scottish energy debt was found, and even less so on regional differences and the unregulated fuel market.
- Fuel poverty and energy debt have similar drivers and contributors, but energy debt relates more concretely to the experience of the householders.

The energy debt landscape

- Gas and electricity debt in the UK has increased since 2017, both in the number of accounts in debt and the value of the debt. The increase was particularly steep in the first quarter of the COVID-19 pandemic.
- Energy debt is not an isolated debt, households often have multiple arrears and can use debt as a 'budgeting strategy' by moving debt around or prioritizing certain debts.

Rural energy debt

- (Remote) rural communities face a variety of different challenges relating to energy debt in addition to higher energy costs (higher overall costs of living, less available suppliers and tariffs for switching, less available debt-specific help, and a community culture where familiarity and trust are needed for effective support).
- Because in general upfront payment is needed for unregulated fuels, debt from unregulated fuels are typically incurred as a different type of debt (e.g. credit card debt, overdrafts, electricity debt when plug-in heaters are used instead of the main heating system). This makes unregulated debt very hard to quantify.

COVID-19

- The COVID-19 pandemic makes debt-vulnerable households (women, single parents, private renters, young households) even more vulnerable, and advice organisations expect the effects of the pandemic to become worse once relief measures and furlough schemes come to an end.
- The direct effects of COVID-19 affect energy debt by causing income shocks, whereas indirect effects include higher energy bills because more time is spent at home, in-person support being harder or impossible to deliver and negative mental health impacts hindering seeking support.

Barriers to support

- Digital exclusion impacts energy debt by being a barrier to switching suppliers and tariffs online, and in addition has negative indirect impacts (e.g. making it harder to search for jobs that could increase income, increased isolation).
- Shame, pride and stigmatization were often highlighted by advice organisations as important barriers to seeking help.

Recommendations

Data and research

For a better quantitative picture of energy debt in Scotland, more data on energy debt and regional differences in energy debt is needed. We suggest this can be done in the following ways:

- Asking explicitly about energy debt in the Scottish Household Survey.
- Putting a requirement on the regulated energy providers to supply sub-regional debt statistics on an annual basis.
- Further analysis of StepChange's data of Scottish clients and the complex debt data from Citizen's Advice Scotland (CAS).
- Additional research on the nature and extent of debts relating to unregulated fuels.

Energy Debt and Fuel Poverty focus

Although the ECC recognises the importance of a focus on energy debt (as evidenced by the commissioning of this report), the lack of available energy debt research underlines that this focus is not the norm. We therefore recommend that:

- The ECC continues to promote a more energy debt centred focus when fuel poverty is discussed.
- The ECC does further research into how policy aims and composition could address energy debt more specifically.

Support to households

Based on the ‘Good Practice’ examples discussed in this report, we recommend:

- Organisations supporting households with debt could do more to promote switching to cheaper tariffs in communities traditionally loyal to their energy provider.
- As far as they have not adopted the best practices identified in this report, support organisations should be encouraged to adopt partnership working, community engagement and in-person help.
- For suppliers, a pro-active approach, where clients in debt are helped early on should be adopted by all, considering the barriers individuals face for seeking help.

1. Introduction

Energy debt is one of the four themes the Energy Consumers Commission (ECC) is committed to addressing in 2021[1]. The costs of energy have major impacts on consumers, particularly those for whom energy bills are a relatively large part of their household income. The ECC wants to work to improve understanding of the factors impacting consumer energy costs and debt and push for costs to be fairly and transparently set and collected. Changeworks was commissioned to research consumer energy debt in Scotland to contribute to this understanding.

1.1 Energy debt and fuel poverty

Energy debt, fuel poverty and the affordability of heat all concern energy costs and household income levels and are therefore closely linked. However, the terms fuel poverty and consumer energy debt are not entirely interchangeable. Firstly, while fuel poverty focusses on heating the home, energy debt also includes electricity use for appliances and electric devices in the home. Furthermore, fuel poverty status is determined by a specific definition and based on modelled heating bills using a standard heating regime and a household's minimum standardised income after housing costs[2], whereas energy debt, or being in arrears with an energy provider, is a concrete condition. It is therefore possible to be in fuel poverty and never to experience energy debt, or to build up energy debt and, according to the definition, not to be in fuel poverty. Moreover, most households will know if they are in arrears with their energy providers or not, without explicitly being aware if they are fuel poor according to the definition.

Compared to fuel poverty, consumer energy debt in Scotland is less researched and quantitatively tracked. For example, the Scottish House Condition Survey, as part of the Scottish Household Survey, has monitored fuel poverty levels at local authority levels since 2012. The Scottish Household Survey also measures household (net) income but does not explicitly ask about debt or energy debt. In addition, average consumer electricity or gas debt levels are available at UK level through Ofgem[3], but no data is openly available about Scottish households with these debts. As mentioned, the Ofgem data represents electricity and gas only, whereas consumer

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[1] Scottish Government (2020) ***Energy Consumers Commission 2020-2021 Workplan: Consultation***

[2] The 2019 Act establishes a new two-part definition whereby a household is considered fuel poor if: 1) after housing costs have been deducted, more than 10% (20% for extreme fuel poverty) of their net income is required to pay for their reasonable fuel needs; and 2) after further adjustments are made to deduct childcare costs and any benefits received for a disability or care need, their remaining income is insufficient to maintain an acceptable standard of living, defined as being at least 90% of the UK Minimum Income Standard (MIS), with MIS including an uplift for remote, rural and island communities.

[3] Ofgem Data Portal **https://www.ofgem.gov.uk/data-portal/all-charts**

debts for unregulated heating fuels such as oil, coal, firewood and LPG are not defined or tracked at all.

Overall, although fuel poverty and consumer energy debt are thematically linked, the latter has so far been less quantified for Scotland.

1.2 Consumer energy debt landscape

The ECC requested that the research would provide a comprehensive picture of the current knowledge on energy debt, as well as options for improving outcomes for consumers which they can build on. More specifically, the themes researched for this project were:

- Regional differences in energy debt in Scotland (and regional differences in used energy technologies, such the unregulated fuels used more in off-gas areas).
- Barriers to consumers' ability to mitigate energy debt.
- How the experience of energy debt has changed through time.
- Other types of debt and how they relate to energy debt.
- The impacts of COVID-19.
- Examples of good practice in protecting against or alleviating energy debt.

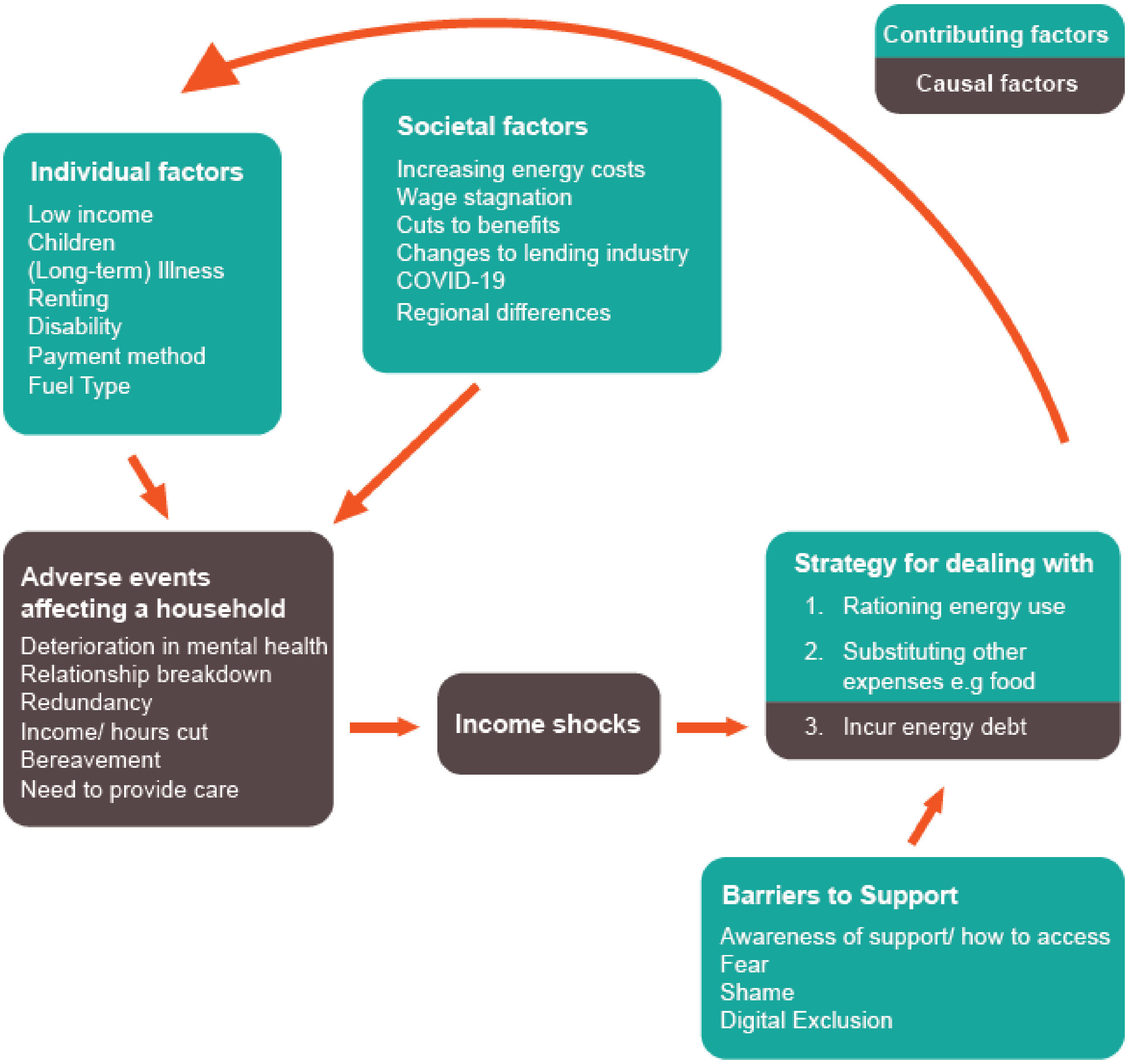
The factors above contribute to energy debt in different ways, some directly, others indirectly, and these factors can be interlinked as well. For example, geographical differences in average energy debt are not due to the specific location of a property itself (i.e. its coordinates), but because household income, the price of heating (i.e. availability of a cheap fuel type like gas) and the energy efficiency of properties differ regionally in Scotland.

In addition to the topics above being interlinked, some of the energy debt factors have an impact at the individual household level or are experienced as a discrete adverse event, for example a redundancy leading to income loss. Other factors are societal and experienced simultaneously by households of a similar demographic, for example wage stagnation. Losing a job and wage stagnation both influence how much a household can spend on energy bills, but the nature of the former is more likely to lead to an income shock and as a result, debt.

Based on the research, we have reflected the influence of the different energy debt factors in the model below, which is discussed more in depth and referred to throughout the report. Note that, like the commissioned research, the schematic focusses on how debt is incurred, its contributing factors and barriers to support. The process of getting out of debt and the factors that enable or limit that were not the focus of this research and were therefore left out of the schematic.

Energy Debt Schematic

Consumer energy debt generally is the result of one or more **income shocks**, which follow **adverse events** that affect a household. The adverse event, such as a redundancy or relationship breakdown, is influenced by **individual factors** that are unique to the household, and **societal factors** affecting a larger part of the population (e.g. the COVID-19 pandemic). We therefore consider the adverse events and income shock(s) **causal factors** to energy debt, and the individual and societal factors **contributing factors**. Incurring energy debt reflects one of strategies householders can, or are forced to take when in this position. **Barriers to support** can act as contributing factors to energy debt, as well as perpetuating the issue.



1.3 Report layout

The research consisted of (i) a systematic literature review, (ii) a review of available data with some analyses and (iii) interviews with organisations helping consumers with energy debt and suppliers and householders with energy debt experience. The methodologies for each activity are described separately in the next section. Throughout the rest of the report, the results from all three activities are discussed under each research theme where relevant.

Note that for this research we did not collect quantitative data ourselves, so the graphs and maps throughout the report represent data and statistics shared with us by Citizen's Advice Scotland (CAS) and StepChange[4], or Ofgem open access data (sources will be indicated per figure).

[4] **StepChange** is a charity that helps households with their debt problems. They are the UK's largest provider of free and impartial debt advice.

2. Methodology

The research methodology comprised a literature review, data review and stakeholder interviews. Given the ECC was set up to 'enhance the voice of consumers who reside in Scotland within the energy market', the focus of this project was on Scotland, and literature and data from other countries of the UK were generally not included unless they were considered particularly relevant.

2.1 Literature research

At the start of the literature review, the search terms, inclusion and exclusion criteria, key documents to review, and a hierarchy of sources were prioritized and agreed on with the Scottish Government project manager. The search terms used are documented in Appendix A. A search of grey literature, published research, academic papers, and case studies was carried out using academic (Web of Science, Google Scholar and Scopus) and non-academic (Google) search engines. Reference mining of identified evidence sources was used in addition to the search engines. The steps from the systematic literature search were documented for transparency.

The focus of the literature review included the themes highlighted by the ECC:

- Regional differences in Scotland (and regional differences in energy technology, such as off-gas areas).
- Barriers to consumers' ability to mitigate energy debt.
- The consumer experience of energy debt changing through time.
- Other types of debt.
- The impacts of COVID-19 and Brexit.
- Examples of good practice in protecting against or alleviating energy debt.

It also looked at how these topics are interlinked.

2.2 Data analysis

As highlighted in the Introduction, quantitative data on consumer energy debt data is scarce and, unlike fuel poverty data, not systematically collected (or made openly available) for different Scottish regions. Ofgem was not able to share more region-specific data on energy debt with the research team, and only one of the five energy suppliers we approached through our contacts was willing to share some domestic debt statistics with us.

Data from the Changeworks Affordable Warmth team clients was initially explored for analysis but rejected for use when it became apparent not all the Affordable Warmth advisors log data on the electricity and/or gas arrears from the clients they help (for the purpose of managing the client relationship, they did not need that data). This meant that the absence of debt data for a client did not necessarily mean an absence of debt, rendering it unsuitable for both quantitative and qualitative analysis. This is a common observation when data from client databases are analysed for a different aim than they were set up and can explain why relatively little quantitative data on energy debt was found for this project. If data is not collected intentionally, it does not get collected properly.

Overall, the energy debt data and statistics that were either openly available or shared vary in geographical resolution and the period they cover (Table 1). In addition, only the Ofgem Consumer data and Ofgem COVID Omnibus had data that was collected during the pandemic. The Ofgem COVID-19 Omnibus focused particularly on consumer attitudes towards energy bills.

Table 1: Overview of dataset and sources used in the data review of this report, specifying the spatial and temporal resolution.

Dataset	Notes	Period or year	Geographic resolution
Ofgem Consumer data[5]	Electricity and gas arrears for clients with repayment plans and without. Average debt in GBP and percentage of households	Data available from 2012 to Q3 2020	UK level data
Ofgem COVID Omnibus data[6,7]	Ipsos MORI telephone survey with a GB-representative sample. Specific survey for impacts of COVID-19	April, May and October 2020	Data per UK regions, with Scotland as one region
CAS Energy Consumer Tracker Survey 2020[8]	Survey using the YouGov consumer panel of 3306 households. Pre-COVID-19 data	Survey held early 2020	3-fold urban/rural split and 9 regions or Scotland
StepChange client data from 'Scotland in the Red' report[9]	Data from the StepChange client base, hence biased to those who received/asked for help. Pre-COVID-19 data	2019	Scotland data at constituency level (73 constituencies)

Given the variable dataset and that some information was given to us as a summary of statistics rather than raw data, it was not possible to do additional statistical analyses on the drivers of energy debt. Nonetheless, the sources were reviewed for the themes specified by the ECC and where possible summarised to aid the interpretation of the literature review and the interviews.

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[5] Ofgem Data Portal https://www.ofgem.gov.uk/data-portal/all-charts

[6] Ofgem (2020) ***Consumers' Experiences with Energy During the Covid-19 Pandemic – Summary of Research Findings***

[7] Ofgem (2020) ***Consumers' experiences with energy during the Covid-19 Pandemic - October Update***

[8] Citizens Advice Scotland (2020) Data not published to date.

[9] StepChange (2020) ***Scotland in the Red***

2.3 Interviews

Interviews were held with three different types of stakeholders:

- Community groups and organisations that help people with energy debt (not necessarily as their main objective).
- Energy suppliers, both from the regulated and unregulated market.
- Householders with a lived experience of energy debt.

For the community groups and organisations, as well as for the householders, urban and rural representatives were recruited (Table 2). For each stakeholder group a separate topic guide was developed, which was informed by the literature research. The topic guides covered the same topics as in the literature review and can be found in Appendix B. Where appropriate, interviewees were asked to share examples of good practice.

Table 2: Overview of stakeholders that were interviewed for this research.

Stakeholder type	Number of interviews	Description and remarks
Advice groups and community groups	10	Wide geographical spread with a focus on rural communities. Included interviewees from specific energy advice groups, a rural council policy officer focussing on fuel poverty, an urban and a rural food bank and a charity focussing on debt
Energy Suppliers	5	4 suppliers of unregulated fuels, including a fuel buying club 1 ‘Big Six’ electricity supplier
Householders with lived experience of energy debt	5	2 from rural/island communities 3 urban households (Central Belt)

The semi-structured interviews were conducted via telephone but not recorded as in our experience that can inhibit interviewees. Interview notes were written-up and analysed using the qualitative data analysis software Nvivo. The analysis was performed by creating a high-level coding structure based on the topics from the topic guide. This was then expanded upon as the analysis developed, to establish a framework identifying key themes emerging from the interviews. Some of the interviews with the unregulated fuel suppliers were relatively short. This was particularly the case where they have no set up for offering clients credit which limits their experiences with clients in energy debt.

3. Energy debt in the UK and Scotland

As highlighted in the Introduction, consumer energy debt in Scotland is poorly researched and not quantitatively tracked. It furthermore differs from fuel poverty in that generally the causal driver for energy debt is not low income or high fuel bills per se, but an income shock following adverse events. The first section below summarizes the available data and research on UK and Scottish energy debt over the past five years. The following sections discuss changes in the debt landscape, individual factors contributing to energy debt, and other types of debt.

3.1 Changes in energy debt

There was no Scotland specific data available through Ofgem for average electricity or gas arrears, only UK level data. Therefore, some UK statistics rather than Scotland specific ones are discussed in this section. For the UK, the most recent Ofgem data (Q3 2020) shows 5.9 % of electricity accounts in arrears[10] with on average £461 owed if there are repayments arrangements in place or £715 when this is not the case. For gas accounts, 5.4% of them were in arrears, on average with £395 and £584 for households with and without repayment arrangements, respectively.

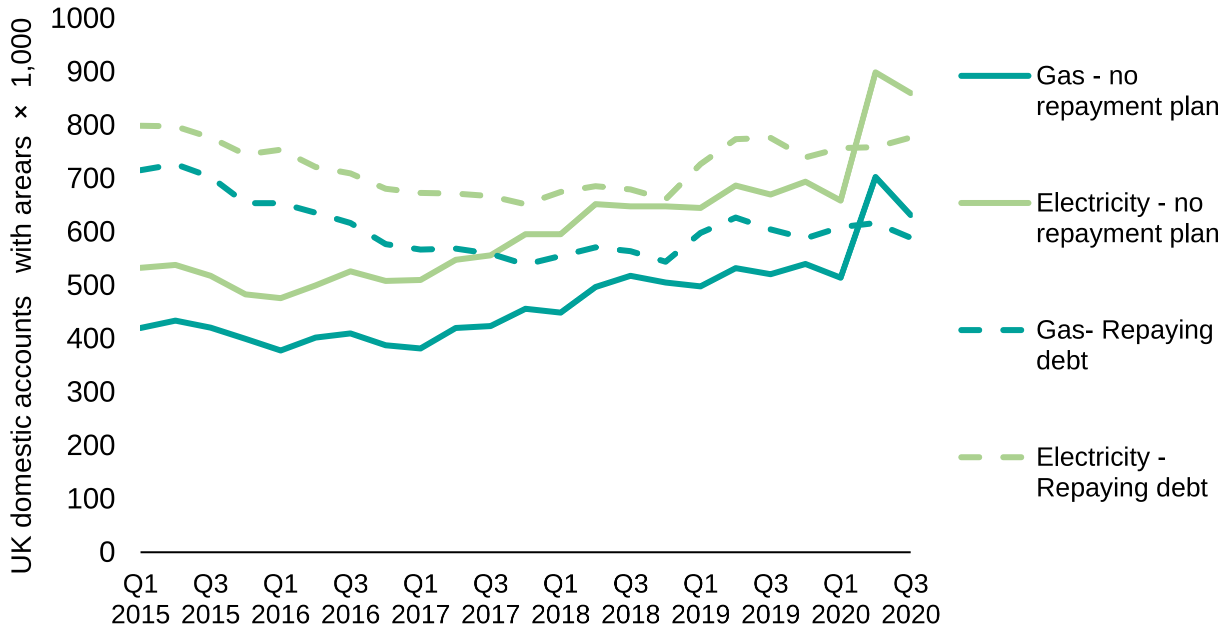

Figure 1: UK gas and electricity accounts with arrears, with and without repayment arrangements to their suppliers. Ofgem Consumer Data[11]

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[10] For Ofgem, a customer is in arrears if they have not paid a bill for longer than 91 days (13 weeks)

[11] Ofgem Data Portal https://www.ofgem.gov.uk/data-portal/all-charts

UK accounts with gas or electricity arrears and no repayment plans have increased since 2015 and in particularly during the COVID-19 pandemic with a rapid increase in Q2 of 2020 (Figure 1. NB for discussion about COVID-19, see section 5). In contrast, gas accounts with arrangements for repaying debts have declined since 2015, whereas electricity accounts with debt repayment plans first declined but have returned to similar values of five years ago. Overall, since 2015 all accounts with gas or electricity arrears (combining those with and without repayment arrangements) first declined and then started rising post 2017, before the COVID-19 pandemic.

The increase of energy debts pre-COVID-19 was also seen in client data from StepChange, a charity that helps households with debts. According to their 2019 report 'Scotland in the Red'[12], 22% of their clients were behind on paying their electricity bills and 16% were behind on paying their gas bills. Moreover, they reported that the proportion of their clients with arrears in their electricity bill doubled from 2015 to 2019 (from 10 to 20%), and the average amount of bill arrears grew from £703 in 2015 to £908 in 2019 for electricity and from £531 to £637 for gas in that time.

A lack of longitudinal research and data on energy debt means it is hard to expand specifically on consumer experiences changing over time. A number of societal changes have influenced the energy debt landscape since 2008, which is explored in the next section.

3.2 A changing debt landscape

Personal debt levels in the UK have fluctuated significantly in recent years, in early 2020 household debt was reported to be 31% higher than the peak before the 2008 financial crisis[13]. Research shows that rising levels of household debt correspond to increases in income inequality[14]. Prices for essential utilities have seen long-term increases, with real terms rises of 28% for gas and 37% for electricity since 2007[15], whereas the average household disposable income has only increased by 0.17% since 2007[16].

The rising number of indebted households (UK-wide), can also be traced to the following related factors[17]:

- **Long-term wage stagnation** tied to insecure and precarious work patterns. Furthermore, a lack of regularity in working hours is increasingly common (e.g. zero hour contracts).

[12] StepChange (2020) Scotland in the Red
[13] Trades Union Congress (2020) *News listing: Unsecured debt hits new peak of £14,540 per household- TUC analysis*
[14] Berisha et al. (2020) *Time-varying influence of household debt on inequality in United Kingdom*
[15] NAO (2019) *Regulating to protect consumers in utilities, communications and financial service markets*
[16] ONS (2020) *Average household income, UK: financial year ending 2020 (provisional)*
[17] Kirwan (2019) *On 'those who shout the loudest': Debt advice and the work of disrupting attachments*

- **Cuts to benefits**, for example the changes to Universal Credit have played a key role in shaping the landscape of debt[18,19].
- **Changes in the debt industry**. The lending industry has been expanding into the 'debt management' market which includes companies that charge fees to manage their clients' debts.

In contrast to the mainstream fuel poverty literature, debt studies highlight that younger households are becoming more in need of debt advice and support, which is explained by changes in attitudes of households towards debt. Older people generally appear to be more likely to cut back on fuel use rather than get into debt, whilst this is reversed for many younger households[20]. Overall, the debt literature suggests that the factors that increase the risk of arrears are young people on low incomes, low-income families with children, those in rented accommodation and those with long term illnesses or disabilities.

Interviewees in this research confirmed the notion that energy debts have worsened the last years. They pointed out how the popularisation of zero-hour contracts and suppressed wages have meant that the cost of living has been increasing.

"I would say things are getting worse based on the growing number of enquiries year on year. […] We have seen a huge increase in people in need, people going into debt and being unable to afford their fuel. And the number who are self-disconnecting is rising. And so is debt, especially with electricity. It's kind of spiralling I'd say."
Advice organisation

3.3 Individual factors

As mentioned above, those who experience energy debt are often vulnerable in other areas of their life as well. All of the interviewees had experienced forms of trauma and/or vulnerabilities: traumatic bereavement, drug use, health conditions and disabilities. One of the interviewees is a polydrug user with learning difficulties who also suffers from anxiety and depression. He spoke to us about how difficult he finds managing day to day tasks:

"Drug problems. All my money – every last penny - was going on drugs to keep me feeling normal, or what I called normal back then. But now I'm past all that so it's time to get on top of things. It's difficult at the moment though – I've got ADHD so it's difficult for me even to read a letter from top to bottom. Even while I'm on this phone call I need to walk about. […] I'm making better choices. I have relapses sometimes. One thing can go wrong – it could be something to do with the electricity – and because that goes wrong it sends me into a depression and then I get onto the drugs, and then it's a constant cycle."

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18 Morris (2016) ***The moral economy of austerity: analysing UK welfare reform***
19 Citizens Advice (2017) ***Universal credit and debt: evidence from Citizens Advice about how universal credit affects personal debt problems***
20 Gibbons and Singler (2008) ***Cold Comfort: a review of coping strategies employed by households in fuel poverty***

Another interviewee defined herself as being disabled:

"So many things I can't do. I didn't finish my education because of my health condition so lots of things I can't do for myself. So, it's sometimes difficult and I feel excluded."

As highlighted in the Energy Debt Schematic on page 5, individual factors and discrete adverse events play an important role in households acquiring energy debt. Sometimes, for example, bereavements or relationship breakdowns can spiral a household into debt. One interviewee we talked to, who is experiencing significant levels of debt, shared how her partner leaving had left her to have sole management of their debt:

"I have quite a lot of debt. My partner left me with lots of debt, so I have to pay that now. He left when I was pregnant. He asked us to leave actually, and he went back to Africa so I have to pay his debts […] I sometimes go without food."

"Losing mum was a real shock – it was very sudden and unexpected. And other things were rumbling on with an ex-partner, so things got worse and worse and I wasn't coping. I've no brothers or sisters or close relatives so it's really tough. It was all mixed up together. Mum was quite often lending me money, so I'd lost even the ability to have that back up. So that had a knock-on effect. I had to choose to eat rather than pay electric."

3.4 Other debts

The StepChange 'Scotland in the Red' report provides data on other types of household debts. Over half of all their new Scottish clients (52%) are in arrears for at least one essential bill (essential bills being Council Tax, mortgage, rent, electricity and gas). Council Tax is the most common form of debt experienced by their clients (42%), followed by mortgage (27%), rent (27%), electricity (22%) and gas (16%).

The National Audit Office (NAO) published UK-wide figures of total consumer debt (excluding mortgages) in their 2018 'Tackling Problem Debt report', showing a similar debt prioritisation. The aggregated Council Tax arrears amounted to the highest sum (£3.2 bn), followed by water arrears (£2.2 bn), rent arrears (£1.3 bn) and energy arrears (£1.1 bn)[21].

The CAS Consumer tracker from February 2020[22] did not report on other debts explicitly, but asked respondents to report how they feel about their income and if they miss any payments as a result of having run out of money before the next Pay Day (Figure 2). Overall, 11% of the respondents indicated having missed payments to their electricity or gas suppliers, and unsurprisingly the percentages are higher for those that find it difficult or very difficult to get by on their income (30% and 53%, respectively). The respondents that have missed payments for non-energy related

[21] National Audit Office (2018) ***Tackling problem debt***
[22] Citizens Advice Scotland (2020) Data not published yet

services or goods bills is more than twice as high as those saying to have missed their electricity or gas bills *28% vs 11%), which is similar to the StepChange clients (the other categories in the CAS Consumer Tracker included: mobile phone bills, Council Tax, essential toiletries, food, internet access, sanitary products, clothing for cold weather, credit/store card, mortgage or rent).

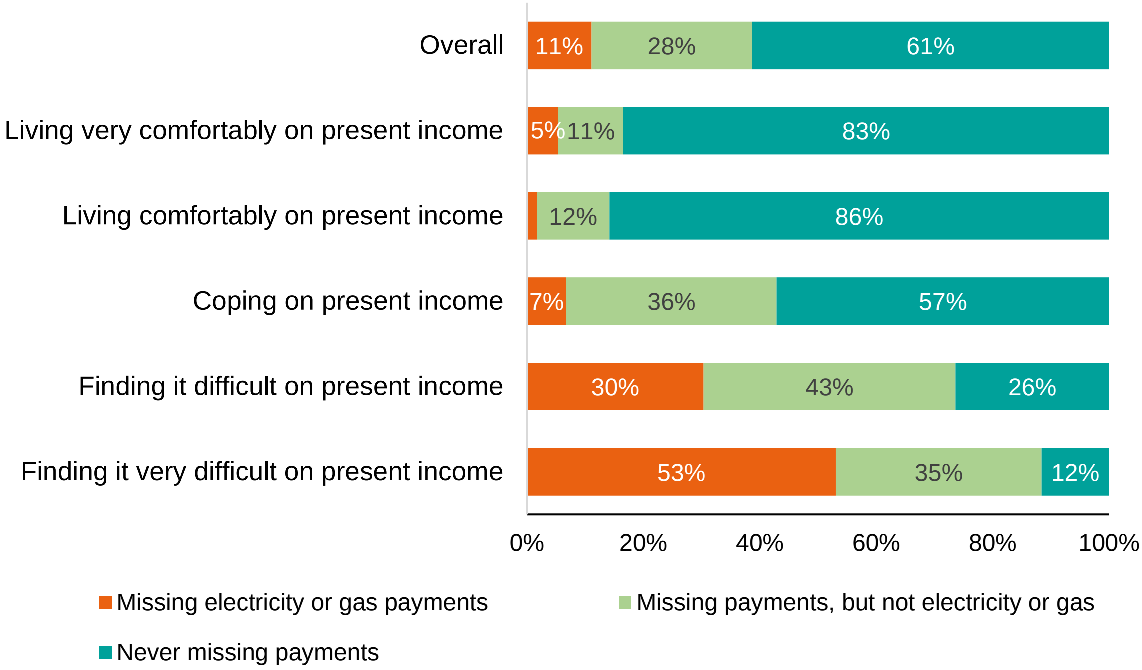

Figure 2: Summary of respondents' missing payments, categorised by the answer "Which of the following phrases would you say best describes how you feel about your household's income these days?" from the CAS Consumer Tracker February 2020.

Overall, these finding suggested that both in terms of percentage of households and the amount of absolute debt, paying energy bills is prioritised over paying Council Tax and housing costs. It is not clear why households would give a lower priority to paying Council Tax, as being in arrears with the latter can have serious consequences (i.e. liability orders or other court action). Likewise, it was not clear why householder paying energy costs over housing costs would be preferred.

Interviewees agreed that when energy debt is present, most often debts in other areas are too. Concurring with the literature review, the other debts mentioned by interviewees were:

- Council Tax
- Rent arrears
- Mobile contracts
- Loans
- Credit card debts
- Benefit agency debt
- Catalogue debts (for rural and island communities that do not have access to Argos and other common mainland distributors)

One interviewee highlighted that for householders themselves these debts might not be strictly categorised:

"There's no such thing as food poverty or fuel poverty or period poverty. People are just poor and have to make choices about where to spend what little amount they have." Glasgow food bank worker

This was echoed by a householder we interviewed who talked about her difficulty in prioritising heating and food costs:

"I'd rather stop taking other things and have heating. I have to choose between heating and buying food. I can just manage with what food I have in house. But difficult when I have a 7-year-old boy who doesn't understand why we can't afford things."

One interviewee talked to us about her difficulty in choosing between drinking and heating the home:

"I lost my mum which knocked me completely. If I want to have a drink, I'll do that and not pay my electricity bill. It's mainly because of my mental health."

4. Urban and rural reality

As highlighted in the Introduction, many factors (individual and societal) differ among Scotland's regions (e.g. household income, the price of heating and the energy efficiency of properties). In this section we first focus on the regional energy debt differences, which are only available for electricity and gas. The subsequent section discusses wider themes that influence rural energy debt in particular and the final section discusses unregulated fuels explicitly.

4.1 Gas and electricity

The StepChange 'Scotland in the Red' report showed an average electricity debt of £908 per client, with the averages at constituency level varying from £308 to £2729 (Figure 3). Generally, the areas with the highest average debts are mostly found in the off-gas areas, although high average electricity debts from StepChange clients also occur in the Central Belt.

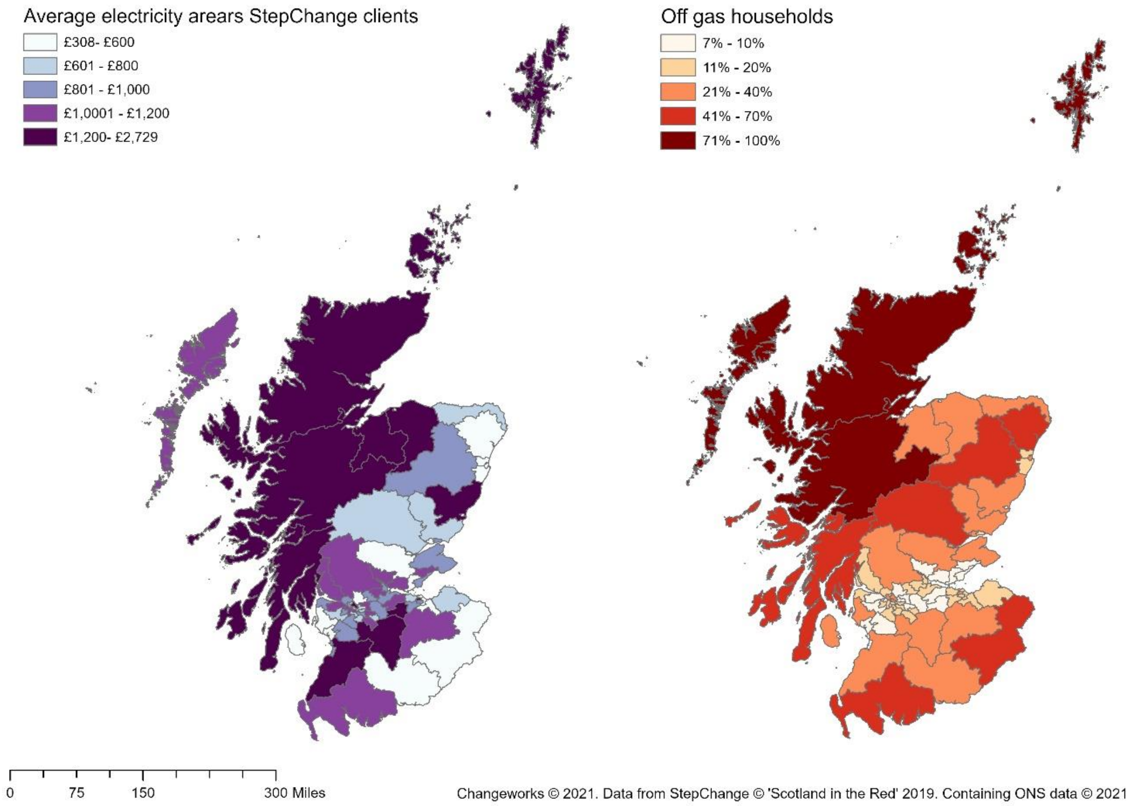

Figure 3:Maps of Holyrood Constituencies showing the 2019 StepChange 'Scotland in the Red' average electricity arears (left) and off-gas households (right).

Other than the 2019 'Scotland in the Red' report, no other literature exploring the Scottish regional differences in energy debt were identified.

For the CAS Consumer tracker from February 2020 the respondents are classified according to three categories: urban, town and fringe, or rural households (Figure 4). Although the self-reported data about missing electricity or gas payments does not reflect the level of energy debt quantitatively, the survey data suggest that rural households are less likely to go into electricity arrears than the other two categories.

The lower percentage of rural respondents missing energy payments could be explained by rural customers generally being loyal customers to their suppliers (see section 4.2). Alternatively, it could (partially) reflect the lower levels of gas-heated properties, as problems with paying for non-gas or non-electric fuels are not visible in these statistics. These issues are also discussed in the next section.

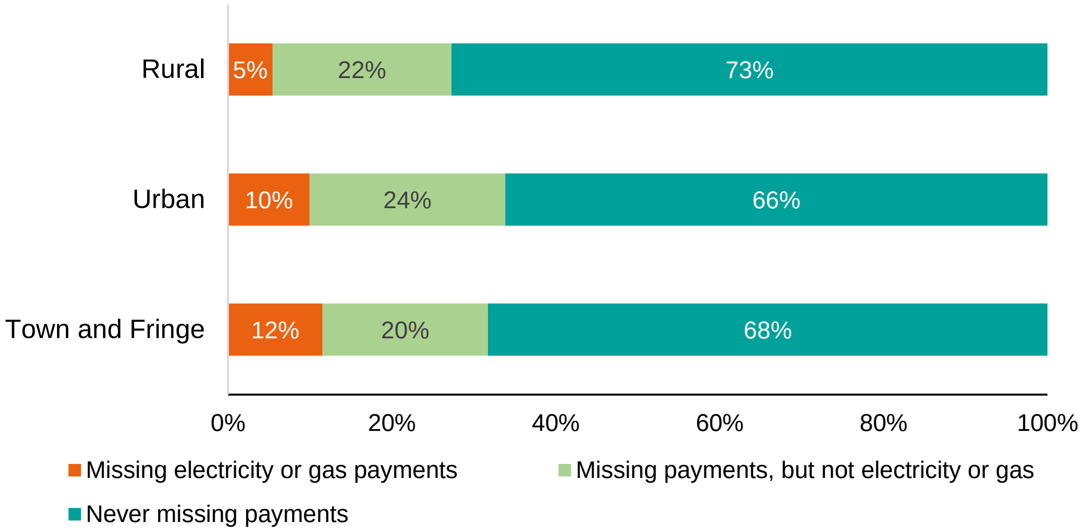

Figure 4: Summary of respondents' missing payments, categorised by urban, rural or town and fringe location from the CAS Consumer Tracker February 2020.

4.2 Rural energy debt

Because the literature review and data analysis did not provide detailed information around the regional differences of energy debt, we included as many stakeholders as possible that are active or live in remote rural, remote small towns, and island communities within the interview sampling. Below we summarise some of the main differences that these communities experience in relation to energy debt (NB: unregulated fuel are discussed more specifically in section 4.3).

Higher costs

One of the most significant impacts of living in rural and island communities is the increased cost of living, which has a direct impact on affordability and therefore on the risk of accruing debts. One interviewee quoted island life as being 50% more expensive, overall, than those on the mainland. Interviewees discussed the following areas:

Energy prices. The higher costs of electricity in rural Scotland, and particularly the Highland and Islands areas are driven by (i) higher distribution costs that add ~2 pence per kWh, (ii) a general lack of switching opportunities and suppliers having a monopoly in the area and, (iii) a higher prevalence of 'Total Heat Total Control' customers who are locked into using tariffs that are is considerably more expensive than other types of restricted meter tariffs[23]. These three factors were all highlighted by our interviewees.

Food. Interviewees discussed how households are having to choose between paying their energy bills or food shopping, the "heat or eat" problem. They also discussed how food is more expensive in these areas, as discount shops do not exist. The interviewees who work in the local food banks had all seen an increase in their users.

> *"What I'm seeing is that they [the community] have 2 choices. They have their power or their food. These are the main things that they have to try to pay to keep afloat. If they don't have electricity they can't do anything with their food because can't cook it. Because they have to keep paying electricity and buying food, something else will suffer. Life takes a downward turn. If they can't afford their electricity what do they do? They're struggling all the time."* North Uist charity worker

Transport. Interviewees highlighted that they face higher transport energy costs, and that this should also be considered within households' energy costs. This has ramifications on individuals' experience of isolation.

"Fuel poverty doesn't include the cost of petrol and diesel for your car. Energy debt – does it include debt they've run up for fuel at the garage? Energy poverty is a more inclusive term than fuel poverty but still doesn't include energy for use in your car." Charity worker on Barra

Higher indirect costs

Colder weather. The effects of climate change are being felt by these communities, with increases in extreme weather, storms and flooding events. Recently they have been experiencing extremely cold winters. These meteorological changes are increasing the amount of heating households are consuming.

> *"We're facing a very cold winter which we're not used to. Normally it's a fairly mild climate here but some of the locals say they've never seen it like this. So when you're in the house all day you need heating on. Now fires are blazing during the day too, not just the evenings."* North Uist charity worker

Housing stock. The condition of the housing stock in rural/islands areas was discussed. An energy advisor based in the Outer Hebrides shared some statistics with us:

> *"Around 90% of houses have a lower SAP rating than band C. Only 10% of homes have A-C. So, there's lots to be done to improve the housing stock. Lots of it was built post-war when materials were scarce – lots of stone-built croft houses."* Outer Hebrides advisor

[23] Scottish Government (2016) ***Delivering affordable warmth in rural Scotland: action plan***

The poor housing stock means that these homes are unsuitable for low carbon heat technology:

> *"They want to switch to air source heat pumps, but you can't do that in leaky houses. That's why fuel poverty is so huge on the islands, because of the poor quality of the housing stock."* Outer Hebrides advisor

The householders we interviewed also mentioned the state of their homes contributing to higher energy bills, as well as their heating systems being very poor at keeping the house warm:

> *"The house I lived in was an old (1870) stone-built house, single glazed, no insulation. No sunlight. So, it was a cold house. Even when I did have oil I was plugging in heaters as well to keep warm."*

> *"I have wooden floors so it's cold. I live in an old building. If I turn on the heating, I have to leave it on for a while before it's warm, so it uses lots of gas."*

Supplier switching considerations

Rural communities face a more limited energy supplier landscape, which will often mean that cheaper tariffs are not available to them.

Firstly, most of the communities are not serviced by the gas grid. Those who use electricity to heat their homes face higher costs. Many electrically heated homes have restricted meters, such as Total Heat Total Control. Households with these types of meters find their tariffs to be complicated and expensive, as well as extremely challenging to switch away from:

> *"A particular issue in our area is that we have a high prevalence of electric storage heaters that are Total Heat Total Control. Lots of clients are in debt through that just because it's so expensive so they can't heat their home to a comfortably warm standard because of the rates that they're charged. People can switch but it's a very complex process and they need to make sure the new supplier understands the system so the switch can be done correctly. […] if you just call up the supplier and don't speak to them it's pot luck whether the person you speak to understands."*
> Energy advisor based in Argyll, Lomond & Islands

One interviewee mentioned that going online to switch suppliers, research cheaper tariffs or look for support online may not be common practice for some Island inhabitants:

> *"A certain generation – it's not in their mindset to engage in the digital world. What is it and what does it add to their lives? They go and feed the cattle and collect the seaweed so why would they use it?"*

In addition, they described the households they engage with to be more loyal to one energy company, hindering their willingness to search for cheaper suppliers and switch.

"Islanders are used to being reliant on one company for something so they wouldn't search around. It's ingrained – they build up a relationship with one place. It's a cultural thing. You go to that place for your energy and that place to get your hair done" North Uist charity worker

A similar picture was depicted by an energy advisor based in Argyll & Bute, talking about the general propensity of their clients to feel loyalty towards certain companies:

"There's still a big thing with a lack of switching. There's still huge loyalty to Hydro (now SSE Ovo). SSEN manages the grid for the majority of Argyll & Bute, and SSE delivers the energy. We need to educate people that they're not the same thing. They think that because they see loads of SSEN vans going round then they'll fix the problems if they have any, whereas E.ON vans are nowhere to be seen."

Trust and engagement

Building trust and engagement in rural and island communities can be difficult. On the one hand, familiarity is seen as something needed to build trust for helping clients in remote areas (see also Section 8, which discusses good practice). On the other hand, the familiarity can make shame and embarrassment a larger barrier that hampers the ability of those experiencing debt to seek support. In smaller communities, people can find it harder to seek help:

"I think it's hidden, and I think that in a small community everyone knows everyone's business so people aren't forthcoming if they have difficulties" Charity worker in Barra

In one Island community, the interviewee described how locals do not tend to seek advice from Citizens Advice Scotland/ Citizens Advice Bureaux (CAS, CAB). This is because of the perception or worry that they cannot access the service confidentially:

"It's about people speaking to people they know and trust and feel relaxed with. And knowing that it won't get out to anyone and they won't be judged." North Uist charity worker

According to this interviewee, crofters, for example, have a much closer relationship to the Scottish Agricultural College and would rather turn to them for support and advice. Communities were described as being weary of incomers offering advice. One interviewee described CAS as mainly being used by those with addiction and alcohol issues rather than for support with energy debt. Another interviewee on the Isle of Barra also reflected on the issues of small communities and advice services that, from the perspective of those seeking advice, do not offer confidentiality and anonymity:

"There aren't any advice organisations other than CAB that service Barra – that's a problem. There's a vacuum. […] And this comes back to the thing about people having anonymity with CAB. The biggest place where you exchange information is in the local Co-op, but you don't want anyone knowing your business so you're not going to talk about your issues in there."

It should be noted that these were specific concerns that might not be recognised by other remote rural communities that have a CAB/CAS office. More generally, it highlights that familiarity alone is not a condition for successful engagement, but it needs to be accompanied by trust in the confidentiality of the service.

4.3 Unregulated fuel market

In Scotland, gas is the predominant domestic fuel type for heating (81%), followed by electricity (11%)[24], and both fuels are regulated by Ofgem. For unregulated fuels such as oil, LPG, coal, biomass, and firewood there are no national statistics or datasets with quantitative information about debt in Scotland. Likewise, research on the consumer experience of debt associated with these non-regulated fuels is sparse. Although in absolute terms the number of households experiencing difficulties with these fuels is low, their problems are significant and often highlight extreme levels of fuel poverty and lack of support.

CAS has shared some insights on the difficulties that the off-gas households they support experience[25]:

- Unaffordability and the high cost of fuel, including the lack of price controls.
- Inadequate financial support.
- Insufficient consumer protection and no available recourse to the Energy Ombudsman.
- Heating systems that are too expensive to replace/repair.
- Self-disconnection to avoid the cost of a primary/secondary heating system.
- Recurring standing charges (in spite of self-disconnection).
- Landlords replacing their tenant's heating systems with unaffordable fuel types.
- The large upfront payments associated with the 'first fill' of an oil tank leaves some households attempting to access credit and accrue debt or go without heating.

The latter point of large upfront payments being problematic has been observed by Changeworks Affordable Warmth advisors as well:

> *"Sometimes because they cannot afford to buy the bulk solid fuel and have resorted to electric plug-in heaters and have accrued electricity debt […] some other clients with LPG or oil will resort to buying the fuel with credit cards to ensure they have some heat as the suppliers will not deliver otherwise."*
> Affordable Warmth advisor Changeworks

[24] Scottish Government (2020) ***Scottish house condition survey: 2019 key findings***
[25] Ofgem (2015) ***Call for evidence on the issues off-grid consumers experience when heating their home: A summary of Scottish CAB service evidence***

Research also shows that the payment method has a direct impact on the extent of energy debt[26]. More specifically, the frequency of the payment and ease with which the householder is allowed to get into debt, has an impact on energy debt.

For example, direct debit payments are regular and automatic and are less likely to be associated with debt because the cost is spread across a year and the payment is automatic. This tends to result in less rationing behaviour and less debt, (although debt also occurs among direct debit customers). Where prepayment meters are used (or where fuel is bought in on a regular basis) the link between usage and payment is direct and the payment is highly visible, resulting in more rationing behaviour and debt.

Fuel suppliers

The ways that households pay for non-regulated fuels in rural and island communities varied significantly. Some suppliers told us that accruing debt with them was not possible since households must pay for the fuel in advance:

"I don't have any experience of people in debt – all ours pay upfront […] We usually get cash on delivery. So no, I don't have any experience of people who are in debt."

"Companies we have here require you either to pay by direct debit with a monthly fee, or you pay for it when you order it. So, they don't let people run up a debt. Similarly, gas cylinders you buy outright. There are no coal merchants – you just have to buy bags and pay at the time. So, it's mainly electricity debts. And people avoid paying the electricity bill so they can buy oil."
Biomass supplier based in Inverness

We also spoke to some fuel buying clubs where community members get together to buy larger amounts of fuel throughout the year. These are quite common in rural areas. In these cases, we were told that households need to pay upfront first, and only then can they then set up a monthly interest free payment plan.

One small, local fuel supplier, who knew his community very well, did have experience of customers not being able to afford fuel for the winter. In this case, he postponed their payment:

"Usually, they pay when they can. If you can't pay let me know and then I know where I stand. We're not talking a major amount of money. I'm lucky – I know them and they know me. People who might try their hand don't come near me because they wouldn't get away with it." Thurso based fuel supplier

Overall, the extent to which unregulated fuels contribute to energy debt are hard to quantify, as the unregulated nature of the markets inherently mean little data is recorded. Suppliers of unregulated fuels mostly do not offer deliveries on credit and do not need to report that to an authority even if they do. Moreover, the interviews with support organisations and affordable warmth advisors show that when

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[26] Lomax and Wedderburn (2009) ***Energy debt and fuel poverty- A case study of financial exclusion***

householders with unregulated fuels cannot pay for heat, they will take up what is technically fuel debt as debt in the form of overdrafts, credit card debt, an electricity debt, due to a switch to a secondary heater, or other forms of credit. It will be a challenge to quantify the exact extent of debt caused by not being able to pay for unregulated fuels, compared to electricity and gas debt.

5. The impact of COVID-19

The COVID-19 pandemic is resulting in unprecedented levels of financial distress and hardship in Scotland and is expected to substantially influence consumer debt with impacts exacerbated particularly amongst low-income households[27]. In this section we focus first on the direct results of the pandemic on debt levels, and subsequently on the wider impacts of COVID-19.

5.1 COVID-19 and energy debt

As shown in Figure 1 (page 11), UK-wide accounts with gas and electricity debts increased substantially after the first months of the COVID-19 pandemic, although data from Q3 2020 encouragingly showed a drop in the number of accounts with arears. Sudden drops in income due to redundancies and furlough might have caused these arrears to peak, as well as increased energy bills due to spending more time at home during the pandemic.

The long-term impact of COVID-19 on household debt is as yet unknown. So far, COVID-19 is having disproportionate impacts on low-income households since they are more likely to experience furlough, job losses and reduced hours. Households in the top quintile of income distribution have instead experienced reduced outgoings, similar or increased income and stronger financial situations[28]. StepChange have researched the impacts that COVID-19 has had, and is having, on their clients[29] with some findings as follows:

- Many of the same demographic groups that were 'debt vulnerable' before the pandemic continue to be over-represented in statistics: women, younger people, single parents and renters.
- A substantial rise in the proportion of new clients behind on utility bills, such as gas and electricity.
- Those who were already struggling with debt have found their situation worsening, struggling to pay their bills or make debt repayments.
- Credit card repayments are the most common debt type, followed by loan repayments, rent, Council Tax, electricity, water, telephone/broadband.

Ofgem carried out three COVID-19-specific surveys, in April, May and October of 2020[30,31]. No explicit debt data was collected in these surveys, but it included debt-relevant questions about using more energy or being worried about falling behind on payments. The data from these surveys are only given for the Scotland specific statistics from the Ofgem Omnibus datasets.

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[27] Scottish Government (2020) ***Coronavirus (COVID-19): impact on equality (research)***
[28] NEA (2020) ***Surviving the wilderness***
[29] StepChange (2020) ***COVID-19 client data report- exploring the experience of debt advice clients during the COVID-19 pandemic***
[30] Ofgem (2020) ***Consumers' Experiences with Energy During the Covid-19 Pandemic – Summary of Research Findings***
[31] Ofgem (2020) ***Consumers' Experiences with Energy During the Covid-19 Pandemic - October Update***

Although in October 2020 50% of the respondents said they had not thought about the impact of COVID-19 on their energy bills, 26% were worried they could fall behind on their energy bill payments, which was the same as at the start of the pandemic (April 2020). In contrast, the percentage of respondents worried that they would not be able to pay their prepayment meters due to income loss increased from 16% to 37% (Figure 5).

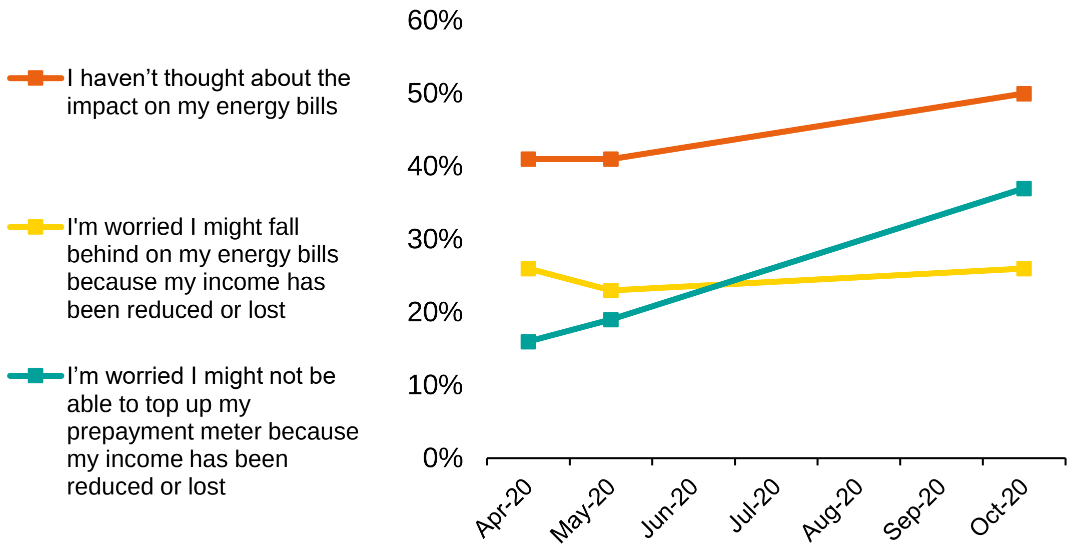

Figure 5: Selected results Ofgem COVID-19 Omnibus data collected in April, May, and October 2020. Scotland data only.

In October 2020, 44% of respondents agreed that they were using more energy in the home, which was lower than earlier that year (56% in April 2020 and 48% in May 2020). This might be explained by more people working from home during lockdown in the first months of the pandemic compared to October 2020. Through time, more people with prepayment meters were worried about being able to top up their meters.

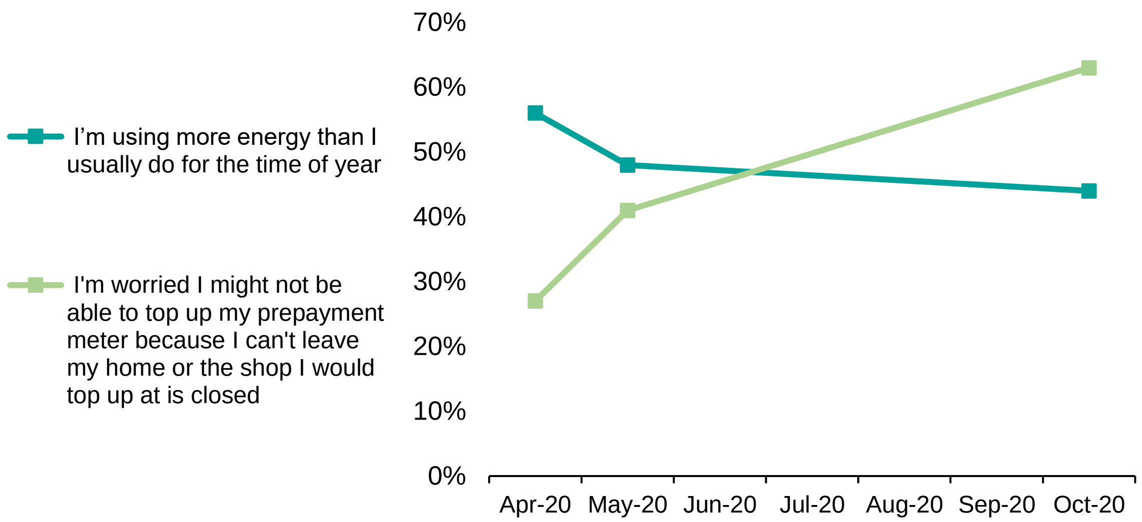

Figure 6: Additional selected results Ofgem COVID-19 Omnibus data collected in April, May, and October 2020. Scotland data only.

5.2 Wider impact of COVID-19

The COVID-19 pandemic has had negative pressures on many aspects related to fuel debt. The main themes that were discussed are summarised below.

Increased expenses

Working from home and generally spending more time indoors has meant that energy usage and subsequently costs have increased. At the same time, income has reduced (due to furlough and zero-hour contracts) or disappeared. Interviewees mentioned increases in food prices and an increased demand for food parcels and food banks. These costs are exerting pressures on households' ability to afford energy.

Engagement

COVID-19 has also meant that certain key services, such as libraries and community centres have been closed. These can be particularly vital to rural communities and their closures have made communities' experiences especially isolating. Advice organisations have also been impacted. They can no longer visit clients face-to-face and must rely on telephone support. This means that there is a proportion of people in debt that are not currently engaging:

> *"We'll see loads of people in all kinds of debt after the pandemic because they haven't been able to sort things out. […] People are not wanting to talk and tell people how bad it is. We used to have a chat to people with a cup of tea and you can get more out of them that way*." Glasgow food bank worker

A trend that advice organisations mentioned as worrying, is that the pandemic has not increased the number of people seeking support for energy debts:

> *"Energy debt cases have remained static or possibly even lower than in previous years. Why? Debt issues as a whole have dropped during COVID-19 because of the prevention of evictions and repossessions. But a quote I like to use is that 'the bill is in the post' - it's coming but it hasn't quite impacted yet because there's been a bit of protection – a moratorium on pursuing debt as a whole. So, there's been a marked reduction in energy debt."* Advice organisation

Those from smaller communities, also found that principal support workers and staff have been furloughed, meaning that advice and charity organisations that they were used to relying on have been closed.

Mental health

All interviewees recognised mental health as being impacted by COVID-19 and having an intensifying impact on those experiencing debts:

> *"I think just now a lot of people have mental health problems – everyone's dealing with the pandemic. It is easy for people to shop on Amazon and then they have no money left. People might then say it is their fault, but if you're in despair it might be your way of combatting it, to buy something nice for yourself. It is more difficult because of the loneliness. My worry is that there might be people who nobody has visited for months."* Charity worker from Barra

The householders that were interviewed also discussed how the pandemic has been negatively impacting their mental health and employment prospects.

“Before COVID-19 I did part time self-employment doing hair. Can’t do that now. And with my new baby I can’t do anything much. Nowhere to leave her.”

On top of the mental health pressures, those with physical vulnerabilities have been experiencing high levels of anxiety:

“Depression, mainly. I’m trying to stay home because of COVID-19. I can’t risk getting ill because who would look after the kids. So I stay home most of the time.”

6. Brexit

When this research was commissioned, the ECC mentioned being interested in the effects of leaving the EU on energy debts. There was no research or data available that focussed on the effects of energy bills or energy debt specifically. Generally, the costs of imported good are expected to increase, and industries in rural areas like seed potato farmers and the shellfish industry already have experienced considerable losses[32]. We asked the stakeholders in our interviews if they had any thoughts on this.

Generally, interviewees did not have much to share with regards to Brexit and energy debt. The main comments related to the possibility of the price of food and essentials going up. The smaller rural communities that rely on crofting subsidies had more to say but this was not directly related to energy debt:

> *"Not sure what's happening. The loss of subsidies will impact crofters. It's also impacting cattle and sheep sales – having an impact on prices. But not sure whether that's Brexit or COVID-19."* North Uist charity worker

Interviewees were also asked to reflect on the impact that Brexit may have on immigrants who experience fuel debt. Most of the interviewees did not see this as a significant issue. Most differentiated between European-economic migrants and refugees:

> *"There have been some Syrian migrants who have come in but there was a real focused effort in supporting them and providing them with advice and support, so they weren't isolated when they arrived and that's been really successful. The other migrant communities are Eastern European – but I can't say whether there'd be any particular issues with those communities, because they've come here to work, so they're probably ok."* Comhairle nan Eilean Siar representative

Overall, there are no clear conclusions to draw at the moment, but the responses above suggest Brexit will cause more income loss for specific communities.

[32] Scottish Government News (21 February 2021) ***Scotland's 'Brexit disaster'***

7. Energy debt, coping strategies and barriers to help

The sections above investigated both the individual factors and the societal factors that influence a household's propensity to accrue energy debt. In addition, the strategy a household adopts to deal with (potential) energy debt and the barriers to supporting them also influence if and how much debt will be incurred (see schematic on page 5). The sections below discuss these coping strategies and barriers.

7.1 Coping strategies

Gibbons and Singler[33] reviewed the coping strategies that households in fuel poverty tend to adopt. These are categorised within three general types:

- Fuel use reduction- through rationing or self-disconnection.
- Financial measures- reducing expenditure on other essentials like food.
- Incurring debt.

Debt is viewed as a strategy that households on low incomes adopt when they are unable or unwilling to cut back on household expenditure, for example when there are small children in the house. The result of this is increased indebtedness, either in the form of arrears on fuel bills or through more general debts. Therefore, households experiencing debt are most likely those for whom fuel rationing is not an option, because of the needs of family members.

The interviews with householders confirmed that fuel rationing behaviour is a common strategy to avoid fuel debt, as well as a strategy adopted by those who are already in debt. At times self-disconnection is preferred by clients over extreme rationing, as utility bills include the standing charges. By self-disconnecting they prevent getting into arrears for the standing charges alone. One interviewee talked to us about the low temperatures he endures to save money:

"*I actually sit with covers on. Most of the time I'm freezing because I don't have central heating. If I'm really cold I put the fire on, but it doesn't even heat the room up. It's been cold so I had to put bedroom heater on so bills might go up again. The living room's cold so I tend to stay in my bedroom and come down at night*."

The same individual has also self-disconnected:

"Because the gas was running up bills, I asked them to switch me off. After the winter I wish I did have the gas on though because it's been so cold. Maybe if I manage to get it back on I could just not use it most of the year, and just have it on in winter. But because I've got learning difficulties I had trouble using the gas installation. Sometimes I'd turn it on and forget about it and get a massive bill."

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[33] Gibbons and Singler (2008) ***Cold Comfort: a review of coping strategies employed by households in fuel poverty***

7.2 Seeking support

There are no quantitative estimates of the total number of households that seek help with their energy debts through advice organisations. Although organisations such as CAS, StepChange, Energy Action Scotland and Changeworks might report about the number of clients they have helped with debt or the affordability of their heating, much support is provided informally, through community organisations and through friends and family.

The CAS Consumer tracker showed that 47% of the respondents that had missed electricity or gas payments had sought advice or support, whereas those with other missing payments sought help less frequently (Figure 7).

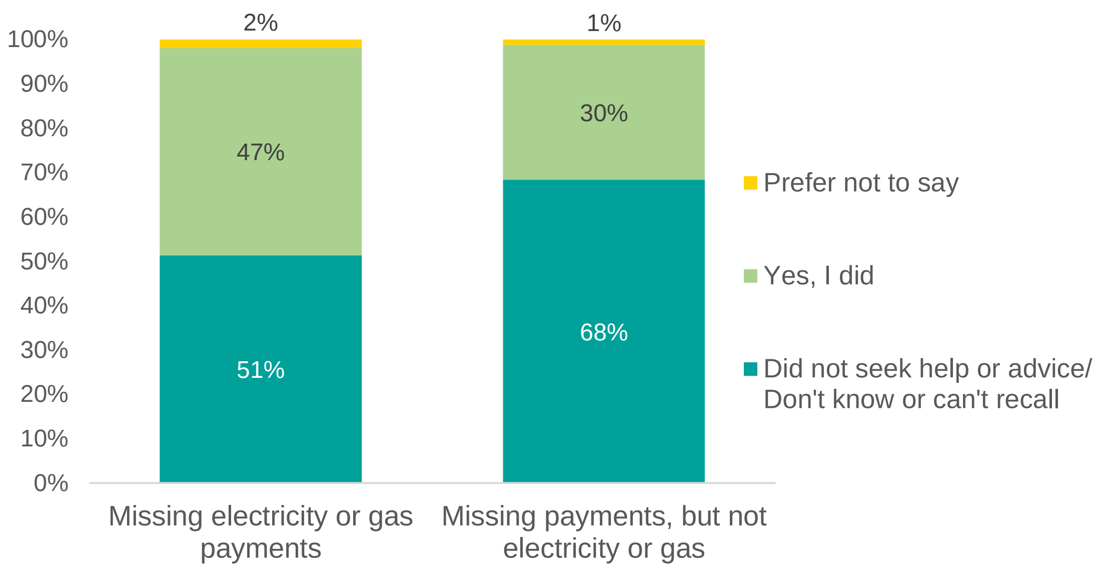

Figure 7: Answers to "Did you seek any advice or support about how to manage any of these debts? (e.g. from family, friends, professionals etc.)" for respondents that missed payments. From the CAS Consumer Tracker February 2020.

Although the survey does not explain this finding, it could be that the missing electricity or gas payments are a greater cause of alarm than missing other payments. In other words, householders might attribute a significance to missing energy payments that will prompt them to ask for support or advice. Alternatively, they might know of more specific services that can help with their missed electricity or gas payments.

According to StepChange, their clients most likely experience debt issues due to income shocks. These are a result of diverse life events such as ill-health, income reductions, unemployment, and cuts in working hours, bereavement and taking on caring for relatives. Many StepChange clients face additional challenges and experience vulnerability. In 2019 over 47% of StepChange Scottish clients indicated they had an additional vulnerability, which is higher than in England and Wales. These additional vulnerabilities include mental health problems, being from an ethnic minority, physical health issues and learning disabilities, as well as any condition that has the potential to make it additionally challenging to deal with debt problems.

As mentioned briefly above, personal circumstances can affect a customer's ability to manage their bills. Research from other debt advice organisations follow a similar pattern. According to Citizen's Advice[34], 54% of their indebted customers have difficulties in at least one other area such as employment, housing and mental and physical health. Those with poor mental health are more than twice as likely to fall behind with some or all of their bills. Christians Against Poverty also identified low income, relationship breakdown and mental health as being the most common reasons cited by their clients for getting into debt[35]. Their research also found that their clients had delayed seeking support for debts because of shame and embarrassment (49%), not knowing where to get help (41%), fear (36%), guilt (28%) and thinking nobody could help (28%). These are examples of barriers that hinder indebted households' ability to seek help and manage their debts.

The CAS Consumer Tracker also asked about feelings regarding missed payments. For respondents who had indicated they had missed paying energy bills (and potentially other payments) people indicated that the three most commonly associated feelings were being stressed, anxious and/or depressed (Figure 8).

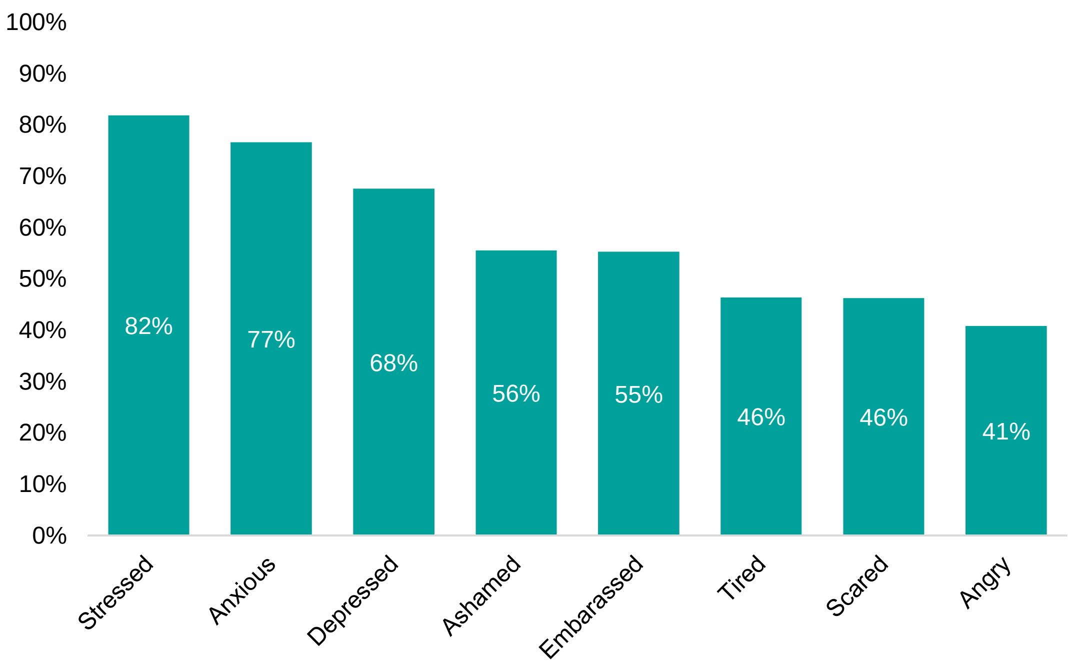

Figure 8:Answers to "Which of the following have you ever felt as a result of missing payments?" for respondents that, among other missing payments, missed electricity or gas payments. From the CAS Consumer Tracker February 2020.

Interviewees frequently discussed the barriers that hinder indebted households' ability to manage their energy debts. Some of these have already been mentioned in other areas of this analysis and follow the findings from the literature review.

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[34] Citizens Advice (2016) [***A debt effect?***]
[35] Christians Against Poverty (2020) [***Is anyone listening?***]

For completeness, the main barriers that were mentioned during the interviews are summarised below.

- High energy costs (especially for electricity and oil).
- Difficulties switching (restricted meters, prepayment meters, loyalty to supplier).
- Cold winters which have been increasing fuel expenditure.
- Lower than average wages and higher living costs in rural and Highland communities.
- Lack of education on energy issues and home management (especially for those moving into their first tenancy e.g. checking if there is still debt left on their prepayment meter).
- Increased sense of shame and lack of engagement, especially in smaller communities (lack of anonymity).
- Lack of advice organisations who specialise in debt advice, especially in rural and island communities.
- Pride, shame and stigma.
- Communication barriers due to poor mental health issues and/or English as second language.
- Inconsistent support from suppliers.
- Energy inefficient housing (often in the private rented sector).
- Cheaper tariffs only available for direct debit.

7.3 Digital exclusion

Digital exclusion can be described as the inability or difficulty in using digital technology in day-to-day life. It is an important contributor to the marginalisation of individuals already facing hardship. It is also difficult to measure. Existing research estimates that 10% of the UK population are both socially and digitally excluded. In Scotland, a similar proportion (10.7%) is classed as digitally excluded[36].

Recent research conceptualised digital exclusion and debt within the downward cycle of deprivation and social exclusion[37] (Figure 9). Being digitally excluded serves as a further barrier for households experiencing debts, as it can make it harder for individuals to take up employment, benefits and to feel connected to a network around them. This has negative repercussions in the areas of work, housing, mental health and debt[38].

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[36] ONS (2018) ***Exploring the UK's digital divide***
[37] Quinio and Burgess (2019) ***Tackling digital, financial and employment exclusion***
[38] NAO (2019) ***Regulating to protect consumers in utilities, communications and financial service markets***

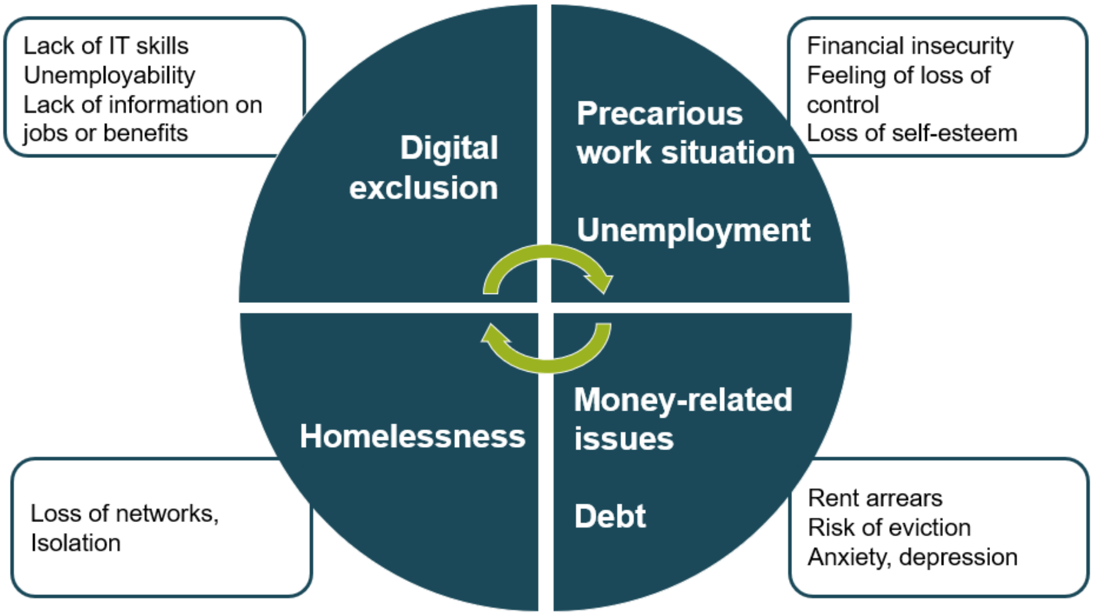

Figure 9 Redrawn from: Quinio and Burgess (2019) Tackling digital, financial and employment exclusion.

Our interviewees indicated that inhabitants of more rural and island locations tend to be more digitally excluded. It is common for households in these areas not to have a broadband connection. Advisors noticed that younger generations are also finding themselves digitally excluded because they are not able to afford the data plans they would need or want (with broadband not being available). Advisors we spoke to often have to take log-in details of their client's accounts to manage things for them.

"Lots of people assume it's older people who are digitally excluded. Older people are less likely to be in fuel debt – it's generally young people who are in debt and often digitally excluded." Energy advisor

8. Examples of good practice

Evidence shows that adopting good debt collection practice both benefits individuals and boosts collection rates. Reviewing the literature, best practice seems to be related most to the suppliers' ability to understand and take into account, within their processes, the indebted households' vulnerabilities and personal circumstances.

In 2018, the National Audit Office developed key principles for good debt management practices[39]. These include:

- Assessment of financial and other vulnerabilities.
- Affordable repayment plans that account for vulnerabilities.
- Signposting or referring to debt advice.
- Helpful, professional communications respectful to those in financial difficulty.

More specifically to energy debt, in 2010, Creative Research undertook research for Ofgem that looked at energy debt and examples of good practice[40]. Their recommendations largely follow those outlined by the NAO above:

- Suppliers should be proactive in responding to warning signals by initiating contact.
- Suppliers should adopt a 'we are here to help' attitude, explaining that there are many ways to repay arrears based on customers circumstances.
- Regular meter readings can help customers from falling into arrears.
- Signposting customers to third party organisations that can help.
- Suppliers should initially ask all the appropriate questions to establish a customer's circumstances/vulnerabilities and make sure these are recorded on the customer's account for future reference. Benefits checks should also be considered.
- Explain the full range of repayment methods available, including the advantages and disadvantages – and to do this effectively suppliers must ensure they have established the customers' circumstances.

More recently, Citizens Advice have highlighted many aspects of good practice that some firms are already undertaking to improve their debt prevention and collection procedures[41]:

- Invest in staff training on welfare reform, what it means to be in debt, how to sensitively probe customers to understand more about their circumstances and ensuring customers are treated as individuals.
- Personalised flexible payment solutions agreed with customers.
- Ensure staff focus on debt prevention by engaging earlier through text, phone, emails and letters.
- Improved written communication with softer tones and more collaborative/ friendly language, rather than mentioning penalties or disconnection.
- Signposting for further help and partnerships with other agencies (e.g. energy suppliers partnering with food banks, debt advice charities).
- Hardship funds that make fuel vouchers available.

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[39] NAO (2018) ***Tackling problem debt***
[40] Creative Research (2010) ***Falling into energy debt for the first time***
[41] Citizens Advice (2016) ***Welfare reform and essential bills***

From the interviews with stakeholders the following examples of good practice were highlighted

In-community engagement

Interviewees from the Highland and Islands area emphasized the merits of local people in engaging communities.

"*You need someone who's local – Not me because I've moved here, but someone within the community who has grown up in the community and knows how it works, and ideally someone who speaks Gaelic. Someone who can have a conversation over the fence. It's those conversations that work. Even in pre-COVID-19 days, it was quite difficult to get people to come along to events. Slow gradual change was better – building trust and having conversations. If you've got someone who grew up here you've already got that trust because they already know who your family are. And also relating it to things that matter to them, practical things. When we're talking about climate change and renewables it's got to be place-based and based on their knowledge and experience."* North Uist charity worker

Partnership working

Interviewees highlighted the benefits of partnership working and of bringing energy related support to other areas like food banks, libraries and housing associations.

"We're trying to take a very integrated approach to financial exclusion, not just energy. If someone's suffering from ill health, they might have other needs that they could be helped with. Agencies working together, and home visits. That works quite well. Agencies cross-referring and building up relationships with individuals and individual households." Comhairle nan Eilean Siar representative

"You very rarely get fuel debt in isolation. So, when we have someone in fuel debt we always signpost them to other agencies too. […] We find our most successful route is working through other trusted intermediaries – carer groups, other agencies - trusted people. They can recommend that the person speaks to us. Energy Advisor

Support at home

Generally, interviewees found support at home to be the most effective method for energy debt related help.

"I'm proud of the fact that in pre-COVID-19 times we engage with customers in their home – we earn their trust and give bespoke support. Often during that time the customer opens up to us and explains they have an ongoing debt issue. The most effective engagement is in-house support. It's not the cheapest way but it's by far the most effective way to provide support. What we want to do is make sure that any assistance isn't just a sticking plaster. What's vitally important is that we resolve their energy crisis but we also equip them to manage it themselves in the future." Advice organisation

9. Conclusions

Data and research

Consumer energy debt generally is the result of one or more income shocks that follow adverse events happening to a household. Very little Scotland-specific data was available on consumer energy debt and even less on regional differences in energy debt or unregulated fuels. Particularly compared to research in fuel poverty the available quantitative and qualitative research was sparce.

The energy debt landscape

Energy debt has been increasing both in the amount of debt per household, as well as the number of accounts with debts. UK-wide, the accounts with electricity or gas debt increased during the first half of 2020 (during COVID-19 pandemic), but both the available data and interviews with stakeholders suggest this increase started in pre-COVID-19 years.

Energy debt often coincides with other debts, though there is a tendency to prioritise paying energy bills over other essential costs such as Council Tax or housing costs. Whether households prioritise energy bills over other costs or accept an accrual of debts can vary greatly dependant in part on the household composition and circumstances (e.g. households with small children being more willing to accrue debt because they deem a heated home more essential than a person living alone).

Rural vs urban energy debt

Rural households are influenced by a range of individual and societal factors that can differ from those experienced by urban households. Rural areas, and particularly remote rural areas, differ in terms of the energy costs, other increased costs of living and the available income to pay for energy. In addition, different attitudes or cultural differences can play a role in dealing with energy debt. On one hand, the familiarity in small rural communities can hinder people seeking help because of shame and (perceived) stigma, whereas such local familiarity (and even heritage) was also considered necessary for community engagement to work. In addition, stakeholders from rural communities indicated a lack of interest from their clients in switching to cheaper electricity providers.

Rural areas also see a greater use of unregulated fuels. However the extent to which these contribute to energy debt is inherently hard to quantify due to the unregulated nature. In addition, the lack of credit offered by the unregulated fuel suppliers causes debt to accrue as either overdrafts, credit card debt or an electricity debt due to a switch to secondary heaters if one-off costs for an oil or LPG delivery are too high.

COVID-19

The long-term impact of COVID-19 on household debt is as yet unknown. So far, COVID-19 is having disproportionate effects on low-income households since they are more likely to experience furlough, job losses and reduced hours. COVID-19 saw a rise in electricity and gas accounts with debt, although half of the households surveyed by Ofgem said they had not thought about the impact of the pandemic on their energy bills. The latter emphasizes that those who were already struggling with debt have found their situation worsening, whereas those with no income losses and a comfortable income could reduce their spending in 2020 and therefore might have strengthened their financial position.

For individual households, the wider impacts of COVID-19 include increased household expenditure as well as negative impacts on mental health that can reduce their capacity to manage debts or seek support. The COVID-19 pandemic has furthermore made it more difficult for support organisations to engage with their clients due to the limitations of meeting others in person.

Barriers to support

Pride, shame and stigma were recurring themes when speaking to stakeholders about barriers to support with energy debt. Difficulties in switching suppliers or to cheaper tariffs also play a role (i.e. restricted meters, prepayment meters, loyalty to supplier). Other factors include a lack of awareness of help, or, especially in rural and island communities, a lack of advice organisations who specialise in debt advice.

Digital exclusion acts as a further barrier for households experiencing debts, as it can make it harder for individuals to take up employment, register for benefits or access fuel vouchers, and to feel connected to a network around them. Digital exclusion also has repercussions in the areas of work, housing, and mental health, which further influences the likelihood of getting into debt and the capacity of dealing with the debt.

Good practice

For energy suppliers, best practice regarding household energy includes a pro-active approach where clients in debt are helped early on and signposted to support. Such an approach needs buy-in from the supplier, which might not recognize this as their remit. For organisations that offer help and support, best practice includes community engagement, partnership working and in-person help.

10. Recommendations

The section below discusses recommendations about energy debt research and data collection and an approach energy debt together in relation to fuel poverty and in a policy context.

Data and research

The lack of detailed data on energy debt in Scotland was identified early in the research. We therefore recommend that monitoring energy debt is prioritised by:

- Asking explicitly about energy debt in the Scottish Household Survey.
- Putting a requirement on the regulated energy providers to supply sub-regional debt statistics on an annual basis.

Given the opaque nature of unregulated fuel debts, we recommend:

- Conducting a bespoke research project regarding the nature and extent of debts relating to unregulated fuels (e.g. how much of that debt exists on credit cards or overdraft?)

Likewise, we identified that different household types adopt different strategies in dealing with (the threat of) energy debt but could not quantify this due to the limited availability of relevant data. In addition, the focus of this project was on how households incur energy debt, not how they get out of it. We therefore recommend:

- Further research the different mitigating strategies adopted by households with energy debts and the process of successfully getting out of energy debt.

Finally, data from StepChange's 'Scotland in the Red' report was one of the few available datasets on consumer energy debt. Their client data contains information on other debt types and household characteristic. In addition, CAS holds ample data on complex debt at CAS. We therefor recommend to:

- Further analyse the StepChange data of Scottish clients in more detail and consider researching the CAS complex debt data more thoroughly as well.

During the interviews, StepChange explicitly stated they would welcome conversations to this effect.

Fuel Poverty and Energy Debt

We proposed a schematic detailing how households incur energy debt after one or more income shocks following adverse events. The focus on events leading to debt, rather than the fuel poverty definition, is recognised by the ECC (as evidenced by the commissioning of this report), but the lack of available energy debt research underlines that this is not the norm. We therefore recommend that:

- The ECC commits to promoting an energy debt-centric approach, including how debt relates to fuel poverty.

- The ECC promotes more energy debt focussed research.

As for polices, current fuel poverty policies and strategies reflect the nature of the definition. They generally aim to reduce average heating costs by increasing the energy efficiency of a property or through rebates like the Warm Home Discount for which households with specific benefits can qualify. However, tackling energy debt effectively appears to require immediate action when income loss happens. This research did not aim to identify the policies that would address the more immediate nature of energy debt. However, we would recommend that:

- The ECC does further research into how policy aims and composition could address energy debt more specifically.

Supporting those with energy debts

Finally, based on the ‘Good Practice’ examples discussed in the report:

- Organisations supporting households with debt should place more emphasis on the promotion of switching to cheaper tariffs in communities traditionally loyal to their energy provider.

- As far as they have not adopted the best practices identified in this report, support organisations should be encouraged to adopt partnership working, community engagement and in-person help.

- For suppliers, a pro-active approach, where clients in debt are helped early on should be adopted by all, taking into account the barriers individuals face for seeking help.

Appendix A: Literature review search terms

	Regional differences in Scotland (and regional differences in energy technology, such as off-gas areas)	Barriers to consumers' ability to mitigate energy debt	Role of digital exclusion in energy debt	The consumer experience of energy debt changing through time	Other types of debt	The impacts of COVID-19 and a potential no-deal EU exit, energy debt	Examples of good practice in protecting against or alleviating energy debt and how these topics are interlinked
Search terms	Scotland + energy debt Scotland + LPG/oil + debt Scotland + electricity + debt fuel debt + Scotland Scotland + gas + debt heating debt + Scotland Scotland AND "energy debt" Scotland AND "fuel debt" Scotland AND gas AND debt Scotland AND electricity AND debt Scotland AND "heating debt" "energy debt" AND UK lpg AND debt AND Scotland "fuel debt" AND United Kingdom "energy debt" "fuel debt"	Barriers + energy debt barriers + fuel debt	Digital exclusion + energy debt Digital exclusion + COVID + energy debt Digital exclusion + Scotland+ energy debt Digital exclusion + energy digital exclusion + fuel debt digital exclusion AND debt	energy debt + experiences + Scotland energy debt + consumers + experiences consumer + narratives + energy debt fuel debt + consumer experiences	debt + Scotland + overview (relevance on energy debt within other debts) domestic AND debt AND Scotland household AND debt AND Scotland domestic AND debt AND energy Brexit AND COVID AND debt	Energy debt + Scotland + Brexit energy Debt + Scotland + COVID fuel debt + Scotland + COVID fuel prices + Brexit Brexit AND energy AND debt Brexit AND fuel AND debt COVID AND debt AND Scotland "electricity prices" AND Scotland gas prices AND Scotland energy prices and Scotland	good practice + energy debt + Scotland case studies + energy debt + Scotland energy AND debt AND case studies

Appendix B: Topic guides

Energy advisors, Social housing and community groups

Interview Topic Guide

INTRODUCTION

- Introduce:
  - **Yourself**
  - **Changeworks:** are an environmental charity who specialise in energy efficiency, fuel poverty and renewables. I work within the consultancy department and carry out research such as this project.

The project: The overall aim of this project is to provide a comprehensive view of the current knowledge on energy debt, and to highlight options for improving outcomes for consumers, which will enable the ECC to target their work at the consumers and areas most in need of support.

- About the interview:
  - The survey will last around 35 mins.
  - We want to hear about your experiences of energy debt.
  - It is anonymous and confidential – we will not use your name in any of the reporting. We will mention, for example, that we talked to an energy supplier, or an advice charity worker etc.
  - I have a list of questions which we will go through and then you will have an opportunity to add anything else at the end.
  - Is that all ok?
- Thank you for agreeing to take part today.
- Finally, are you ok for me to record the interview? This is to ensure we have a record of what you have said but will only be used internally and will not be shared with any other organisation.

QUESTIONS

1) Can you tell me a bit about your charity/company/role? Does it relate to householders experiencing energy debt?

Regional differences in Scotland (and regional differences in energy technology, such as off-gas areas)

1) How prevalent are gas and electricity debts in the households you work with?
2) How prevalent are oil, LPG and solid fuel debts in households you work with?
3) From your experience, have you noticed certain areas in Scotland with higher levels of energy debts?
   a. Prompts: rural areas, urban area

Barriers to consumers' ability to mitigate energy debt (e.g. difficulties switching, role of digital exclusion)

4) From your experience, are householders in debt also experiencing other difficulties? (prompts: job loss, mental health issues, disabilities, competing debts etc.)

The consumer experience of energy debt changing through time

5) Do you think that householders experiencing energy debt are facing any additional pressures/difficulties, compared to the past?
   prompts: more/less common, more/less successful re-payment plans, more/less disconnections due to debt, more/less PPM installs
6) If yes, do you think these patterns are UK-wide or just Scotland-specific?

Role of digital exclusion in energy debt

7) Do you ever deal with households who are both in debt and do not have access to the internet?
8) If yes, could you describe what procedures and support you offer these households? Do these work efficiently/well enough?
9) **If no**, do you deal with households, in general, that do not have access to the internet? If yes, what procedures do you have in place to support them? Do these work efficiently/well enough?

Other types of debt

10) From your experience, do indebted households generally experience other debts?
11) If yes, which ones? How do they compare?

The Impacts of COVID-19 and a potential no-deal EU exit

12) Has the COVID-19 pandemic had an impact on the householders you support with regards to debts?
13) Do you think Brexit is having/will have an impact on indebted households?
14) Do you think that migrant households are at a disadvantage in terms of accessing support to help with debts?

Examples of good practice in protecting against or alleviating energy debt and how these topics are interlinked.

15) What do you think are the best ways to engage with households who are in severe fuel poverty and energy debt?
16) What are the important steps that help support householders **in preventing** debt from accruing? What works best in your experience?
17) And what about alleviating debt? What works best in your experience?
18) Is there anything that, hinders your work in supporting indebted households?

Additional comments

19) Lastly, do you have any further comments?

Thank you for your time.

❖ Provide interviewee with your contact details

Energy Debt Research

Lived experience of energy debt

Interview Topic Guide

INTRODUCTION

- Introduce:
  - **Yourself**
  - **Changeworks:** are an environmental charity who specialise in energy efficiency, fuel poverty and renewables. I work within the consultancy department and carry out research such as this project.

The project: We are working with Scottish Government to understand how we can better support those experiencing debts with energy suppliers.

- About the interview:
  - The survey will last around 35 mins
  - We want to hear about your experiences of energy debt
  - It is anonymous and confidential – we will not use your name in any of the reporting.
  - I have a list of questions which we will go through and then you will have an opportunity to add anything else at the end.
  - Is that all ok?
- Thank you for agreeing to take part today.
- Finally, are you ok for me to record the interview? This is to ensure we have a record of what you have said but will only be used internally and will not be shared with any other organisation.

QUESTIONS

1) Could you start by telling me a little about yourself and your household? *prompts: where do you live, how many people live in the household (number of adults/older adults/children), do any of you work (full time/ part time), type of heating system*
2) How do you heat your home? (gas central heating, PPM etc.)
3) How affordable do you feel your energy bills are? (*differentiate between electricity and gas if possible)*

    - How many hours a day do you usually have the heating on? Is this enough to reach a comfortable temperature?
    - Do you ever experience any anxiety when receiving the bill/when meter is running low (If PPM)?
    - Do you ever have any trouble paying your heating bills?
    - Have you ever been in debt?
    - Have you ever self-been disconnected?

- Do you ever need to go without other things (*Prompt: leisure activities, food*) or borrow money to help pay for the heating?

Causes and impacts

4) What were the factors or events that led to you being in debt?
   - Was it sudden/ happen over time
   - What other factors interacted or influenced it

5) Did this impact on areas of your life (socializing, health and wellbeing, relationships,…)
   - How have your experiences changes over time?

Other types of debt

6) Have you experiences of debt in other areas of your life?

The Impacts of COVID-19

7) Has COVID-19 impacted your finances, or your ability to pay for bills?
8) Has COVID-19 impacted you in other ways?

Examples of good practice in protecting against or alleviating energy debt and how these topics are interlinked.

9) Have you been supported by someone (a charity, friend/family member, energy company) that has helped you manage your debt?
10) What was your experience like?

Role of digital exclusion in energy debt

11) How confident are you with using the internet?
12) Do you ever compare energy company prices online?

Targeting those in severe fuel poverty/energy debt

13) Who would you trust and turn to for help in managing your expenses and heating your home?

Additional comments

20) Lastly, do you have any further comments?

Thank you for your time.

❖ Provide interviewee with your contact details

Energy Debt Research

Energy Suppliers Interview Topic Guide

INTRODUCTION

- Introduce:
  - **Yourself**
  - **Changeworks:** are an environmental charity who specialise in energy efficiency, fuel poverty and renewables. I work within the consultancy department and carry out research such as this project.

The project: The overall aim of this project is to provide a comprehensive view of the current knowledge on energy debt, and to highlight options for improving outcomes for consumers, which will enable the ECC to target their work at the consumers and areas most in need of support.

- About the interview:
  - The survey will last around 35 mins
  - We want to hear about your experiences of energy debt
  - It is anonymous and confidential – we will not use your name in any of the reporting. We will mention, for example, that we talked to an energy supplier, or an advice charity worker etc.
  - I have a list of questions which we will go through and then you will have an opportunity to add anything else at the end.
  - Is that all ok?
- Thank you for agreeing to take part today.
- Finally, are you ok for me to record the interview? This is to ensure we have a record of what you have said but will only be used internally and will not be shared with any other organisation.

QUESTIONS

1) Can you tell me a bit about your charity/company/role? Does it relate to householders experiencing energy debt?

Regional differences in Scotland (and regional differences in energy technology, such as off-gas areas)

2) From your experience, have you noticed certain areas in Scotland with higher levels of energy debts?
    - Prompts: rural areas, urban areas

For non-regulated suppliers

3) Which areas of Scotland do you generally sell your fuel to?

4) Do you ever offer credit options or payment plans for those struggling to afford fuel?

5) Are you aware of any charities or organisations that households can turn to for support for paying their energy costs?

6) Are you aware of any fuel buying clubs? How do these work? What are their advantages?

Barriers to consumers' ability to mitigate energy debt (e.g. difficulties switching, role of digital exclusion)

7) From your experience, are householders in debt also experiencing other difficulties? (prompts: job loss, mental health issues, disabilities, competing debts etc.)

Role of digital exclusion in energy debt

8) Do you ever deal with households who are both in debt and do not have access to the internet?

9) If yes, could you describe what procedures and support you offer these households? Do these work efficiently/well enough?

10) If no, do you deal with households, in general, that do not have access to the internet? If yes, what procedures do you have in place to support them? Do these work efficiently/well enough?

The consumer experience of energy debt changing through time

11) Do you think that householders experiencing energy debt are facing any additional pressures/difficulties, compared to the past?

prompts: more/less common, more/less successful re-payment plans, more/less disconnections due to debt, more/less PPM installs

12) If yes, do you think these patterns are UK-wide or just Scotland-specific?

Other types of debt

13) From your experience, do indebted households generally experience other debts?

14) If yes, which ones? How do they compare?

The impacts of COVID-19 and any issues arising from EU exit

15) Do you think that Brexit is having any impacts on householder debts? (prompts: fuel prices, safety of supply)

16) Do you think the COVID-19 pandemic is having any impacts on householder debts? (reduced household income, increased fuel usage WFH)

17) *For unregulated fuel suppliers* Do you expect Brexit and COVID-19 to have impacts on the cost and availability of your fuel?

Examples of good practice in in protecting against or alleviating energy debt and how these topics are interlinked

18) Is there anything that [energy company name] do to prevent debt from accruing?

19) What generally happens once a householder is in debt?

20) Can you think of any positive examples where householder debts were resolved? Or a householder in debt was supported?

21) If yes, what do you think were the elements that contributed positively to it? What are the "take-home" messages?

22) Is there anything that, looking back, could have helped?

Targeting those in severe fuel poverty/energy debt

23) What do you think are the best ways to engage with households who are in severe fuel poverty and energy debt?

Additional comments

- Lastly, do you have any further comments?

Thank you for your time.

❖ Provide interviewee with your contact details

Contact us

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