AUSTRALIAN
ENERGY
COUNCIL

Financial Counselling Review Team
Department of Social Services

Canberra ACT 2601

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Financial Counselling Industry Funding Model

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Social Services ('DSS') *Financial Counselling Industry Funding Model Discussion Paper* ('Discussion Paper').

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC continues to support an effective industry funding model to better fund financial counsellors. It has been involved in the development of such a scheme since its recommendation in the Sylvan Review in October 2019, and welcomes this process finally reaching a stage where public consultation can be undertaken. That said, given this is the first public consultation in more than three years, the AEC does not support a rushed process to get a funding scheme in place by July 2023 at any cost. As such, we encourage DSS to consider if a 1 July 2023 commencement date is plausible, and suggest that a 1 January 2024 commencement may allow for a more effective scheme to be delivered.

At a high level, the AEC supports the principles proposed in the Discussion Paper, and considers that if a scheme can meet these objectives, then it should deliver positive outcomes for customers. It is critical that financial counselling is able to be effectively funded, in a manner that delivers certainty to the sector, and in turn, delivers confidence to consumers that access will be reasonable. The AEC strongly supports the notion that industries that benefit from, and contribute to the demand for financial counselling should be in scope, and consider that it will be essential that any scheme is able to collect robust data that continues to inform industries of the efficacy of their funding commitment.

However, the AEC does not consider the model proposed in the Discussion Paper aligns with these principles. Of particular concern is its voluntary nature, which will likely result in businesses opting in and out year on year – diminishing certainty to the financial counselling sector, and affecting what could otherwise be a fair and transparent funding model for captured industries.

The AEC is also concerned that the approach DSS has taken to determining a sub-sector split is not conducive to a voluntary scheme. The Discussion Paper suggests that each subsector should have a pre-determined funding 'expectation', yet the entire demand shortfall for financial counselling is expected to be borne by industries that contribute to more than 3% of the time spent by financial counsellors in supporting their clients. In practice, this sees the electricity sector, despite taking 11.46% of a financial counsellors time, are being asked to contribute 15.31% of the scheme costs. While transparent, the AEC does not consider this is a fair approach, and is likely to see some businesses opt not to voluntarily contribute. Given the scheme is voluntary, there does not seem any impediment to seeking to split the total amount amongst a greater number of industries.

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Of additional concern to the AEC is that the funding model is solely driven by the time spent by financial counsellors on managing debts, when ultimately all sectors of the economy impact a customer's financial situation. For a sector like energy that is largely prohibited from allowing its customers to pre-pay for the energy they consume, this drives customers towards financial counselling, despite the amount customers spend on energy being dramatically lower than what they spend on food, housing, transportation and communications. While the AEC acknowledges that some tradeoffs are required in setting a scheme that is transparent, it holds concerns that energy businesses will be asked to pay a disproportionately high contribution to the scheme. This concern is clearly illustrated by the gambling sector being excluded from the proposed scheme, due to its relatively low time impost on financial counsellors. For essential services such as energy, there will clearly be more customers seeking assistance who hold energy debts than for industries such as gambling, however the acuteness of the impact of gambling on a customer's overall capacity to pay is obvious. This was recognized by the Sylvan Review, who noted that *"Problem gambling … may also limit a person's ability to meet their financial obligations and, in turn, drive demand for financial counselling services.* The AEC considers that the gambling sector must be included in any genuine industry funded scheme.

Finally, the sector contribution challenge is exacerbated in the electricity sector due to the role retailers play in collecting regulated revenues for electricity network businesses. The ACCC's recently published *Inquiry into the Electricity Market November 2022* report found that in FY2021, 49% of a small retail customers bill paid for network costs, with only 10% of the bill for retail costs, and just 2% for retail margin.[1] This translates to retailers making only $35 margin per small customer across the National Electricity Market. In an environment with such razor thin retail margins, the AEC has concerns about the capacity to bear significant additional costs by retailers alone. Given this fact, the AEC considers that there is a need for DSS to create an expectation on electricity networks to fund a significant proportion of the electricity sector's contribution.

Key views on funding model proposed

Fundamentally, the AEC considers that a scheme of this nature can only be genuinely effective if all participants within sectors who drive demand for financial counsellors are required to contribute funding in a reasonable manner. This approach would enable the development of effective mechanisms that enable funds to be collected fairly, and distributed efficiently.

A voluntary funding model will only decrease fairness amongst business, and certainty of funding for the financial counselling sector. Neither outcome is optimal. It is highly likely that a voluntary scheme will result in a significant 'free rider' problem, where businesses are benefiting from better funded financial counsellors irrespective of whether or not they themselves contribute to the scheme.

Making the voluntary model additionally complex, the DSS propose to require peak bodies to 'commit' on behalf of subsectors that voluntary contributions will be made, or for DSS to seek commitments from only the few largest participants in each sector. While the peak body approach likely reduces the administrative burden on DSS and the potential scheme, it dramatically increases it for peak bodies. In the case of the AEC, there are several very large energy retailers who are not members of the energy peak body, with the AEC presumably tasked to engaging with these retailers on the DSS' behalf to seek their commitment to participate. If the AEC cannot get that commitment, other AEC members will be required to pay a greater proportion of the energy subsector split. This is not a reasonable outcome. If the DSS wishes to implement a voluntary scheme, it alone should seek commitments from energy businesses based on a reasonable methodology to determine an appropriate contribution. Given the DSS has already determined what it considers a reasonable sectoral split and has provided an estimate as to how it considers that amount would be split between electricity businesses if all those who hold

[1] ACCC, Inquiry into the National Electricity Market, November 2022 report, 2022

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a greater than 3% share of the market contributed, there does not seem any value in requiring peak bodies to insert themselves into the role of making commitments on behalf of subsector participants.

In addition to this broad concern, the AEC sees additional challenges regarding the practicalities of determining a fair contribution for businesses 'expected' but not legally required to contribute to the scheme. In effect, the model proposed sees DSS determining a subsector split that is fixed, irrespective of the number of subsectors that agree to contribute. It is unclear if additional genuinely voluntary contributions as flagged in the Discussion Paper would reduce the cost impost to the expected contributions of each captured subsector.

Within each subsector, while the total contribution is fixed, each individual businesses contribution appears to be dependent on the number of their competitors who also commit to contribute to the scheme. It is here where the 'free rider' problem presents itself. DSS proposes that businesses will commit through the peak bodies to contribute the subsector amount in its entirety, rather than for businesses to contribute their fair share based on the size of their customer base as a percentage of the size of the sector as a whole. In practice, the Discussion Paper appears to suggest that this may see a business with 10% of the customers in a sector, required to contribute a much larger percentage of the sector funding if some of its other competitors do not contribute. The business that fails to contribute will not see any negative consequence of their decision. The AEC does not consider this outcome meets the principle that the the quantum and split of contributions should be determined on a fair and transparent basis.

This issue could be resolved by determining a reasonable sector split, and then determining a reasonable split for businesses within a sector. This would ensure that those who agree to contribute do not pay more than their fair share, and if the Government's desire to see 70% of contributions committed prior to setting up the scheme remained in place, would incentivize as many businesses and sectors to contribute as possible to ensure the benefits of the scheme could be realized. While there would still be businesses that would choose not to contribute funding, it would not be at the expense of their competitors, and if the scheme did not reach its funding goal, those businesses would lose out on the benefits of greater access to financial counselling.

Operation and Governance of the scheme

The AEC supports the design proposed by DSS in the Discussion Paper, and agree with all points noted in table 4. In addition to these characteristics, the AEC considers some consideration is needed on the ability of the scheme (and the financial counselling sector) to scale up its operations to distribute $18.1m in FY24. While the AEC support the funding gap being met as quickly as possible, as highlighted above, this scheme has been more than three years in the making, and is now suggested to be fully implemented, and collecting and distributing funds within 6 months. This seems a significant logistical challenge that should not be underestimated. The AEC considers that there are a number of approaches to mitigating this risk – for example starting the scheme mid-way through the financial year, or setting a lower amount to collect and distribute in year 1.

Regarding governance, the AEC prefers a board selected based on their experience and skills, rather than one with equal representation between industry and community representatives. Ultimately, the effectiveness of this scheme will be dependent on the ability of the board to skillfully navigate the balance between determining an amount of industry contribution that is palatable, that will meet what is likely to be a rising demand for financial counselling. This outcome is likely to be better met by a board with diverse skills and experience, rather than one split based on interests.

The AEC considers a better approach to getting effective input from contributing businesses is to utilize the advisory committee structure suggested in Diagram 3 of the Discussion Paper. This

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approach enables the Board to hear about issues of importance to industry, without weakening its ability to meet a challenging objective.

Evaluation

In addition to the three evaluation questions identified in the Discussion Paper, the AEC considers an additional metric should consider whether or not increased funding for financial counselling affects the total debt held by participating industries. One of the key value propositions for businesses contributing to financial counselling funding is that if their customers are better supported, they are likely to experience better financial outcomes, including lower debts. If total debt does not change as a result of increased access to financial counselling, this may indicate that the right customers are not able to access the support they need, or the approach is not effectively supporting customers to repay their debts.

Conclusion

Overall, the AEC continues to support industry funding of financial counselling, however remains concerned about the approach that DSS has set out in the discussion paper. If a voluntary approach is determined, if should be a genuinely voluntary approach in which businesses that might benefit from their customers having better access to financial counselling are incentivized to contribute funding. The current approach presents as a mandated approach for large businesses in some select industries, despite being described as voluntary. Ultimately, the AEC considers that businesses should contribute to financial counselling, and should be incentivized to pay their fair share. Unfortunately, the AEC considers that the model proposed will discourage smaller - yet material - businesses from participating, as they will see the same benefits whether or not they opt to participate.

Any questions about this submission should be addressed to me by email Ben.barnes@energycouncil.com.au or mobile on

Yours sincerely,

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