PO Box 4136
East Richmond VIC 3121
T 131 806
F 1300 661 086
W redenergy.com.au

PO Box 4136
East Richmond VIC 3121
T 1300 115 866
F 1300 136 891
W lumoenergy.com.au

16 December 2022

Mr Matt Flavel
Deputy Secretary
Australian Government Department of Social Services
71 Athllon Drive
Greenway ACT 2900

Submitted electronically:

Dear Mr Flavel,

Re: Financial Counselling Industry Funding Model Discussion Paper

Red Energy and Lumo Energy (Red and Lumo) thank the Department of Social Services (the Department) for providing the opportunity to comment on the discussion paper on the Financial Counselling Industry Funding Model (the discussion paper)

Red and Lumo in principle support the intent of the reform seeking to guarantee sustainability of financial counselling services. Although we agree that "counselling plays a vital role in supporting people to address their financial problems",[1] the funding model put forward must deliver on the intended outcomes and remain sustainable over the long term.

As the ACCC recently warned "retailers have limited ability to pass through increased costs in the short term, increasing their liquidity risk."[2] It is of paramount importance that during this time with concerns around higher energy bills and the viability of energy retailers any extra costs to retailers are kept to a minimum and expenditure is well targeted, delivering the best value for retailers and consumers. While the financial counselling provides a valuable service for a subset of energy consumers, it is important to note that extra costs to retailers in funding this model may add to the risk of retailer viability or have the potential to see increased costs for all consumers.

Industry funding model

Overall Red and Lumo support the proposed industry funding model with the split in funding across the energy industry based on customer numbers across gas and electricity and covering all jurisdictions not just those that form part of the National Energy Market (NEM). It is pivotal that all energy retailers, competitive retailers and those who operate in non-compete areas (such as those in the Northern Territory, Tasmania and north Queensland) are covered by the funding model.

[1] Australian Government Department of Social Services, Financial Counselling Industry Funding Model, Discussion Paper, November 2022, p1
[2] Australian Competition and Consumer Commission, Inquiry into the National Electricity Market, November 2022 Report, p3

At this stage, the quantum of industry funding proposed in the Consultation Paper appears to be appropriate. However it is crucial that the contribution for each business involved is proportional to the quantum of the problem. As this is a voluntary contribution scheme, Red and Lumo are concerned that should individual organisations elect not to contribute to the overall funding the shortfall will be split amongst the remaining organisations making it more difficult for these businesses to contribute and undermining the overall effectiveness.

With increasing pressures on retailers (highlighted in the ACCC report) there is an ongoing risk that if the final contribution is too high, those retailers who initially volunteered to contribute will come under increasing pressure to withdraw their commitments. As identified in the ACCC report, this is also likely to occur in situations where customers are equally facing high prices. This could create a further cascading effect with the costs for the remaining businesses increasing and they themselves therefore coming under further pressure to withdraw. It is crucial that a key principle of the funding model for this body is that all businesses that stand to benefit from its operation will contribute to the funding and that the cost of that funding remains sustainable for all.

Red and Lumo are also concerned by the options put forward in the discussion paper to only include members of peak bodies as contributing entities on a voluntary basis. As customers of all energy businesses will stand to receive the benefits, it is logical that all participants who will benefit contribute to the cost. We are concerned in the proposed breakdown of funding that the exclusion of smaller retailers (those under 3% of market share) will result in a 17% gap in the overall funding of the independent body. This is a large sum and again risks undermining the overall effectiveness of the program and unfairly pushing up costs for remaining participants.

Red and Lumo understand that at this stage the consultation is unlikely to have time to expand the program to become mandatory or adequately include all industry participants before the 1 July 2023 start date. It is crucial that the funding model for all participants must remain sustainable and appropriate over the long term. To that end, we recommend that the Department should consider delaying the start of the independent organisation until 2024. This would enable a fulsome and evidence based examination of the program, assess whether mandatory contributions across all industry participants is required. At a minimum, we strongly recommend that this issue be made part of the scheduled two year review of the program.

Sector splits of funding

Unlike many other sectors (such as telecommunications and insurance) energy is only charged to consumers on a retrospective basis with consumers paying for products they have consumed months previously. This structure leads to a situation where other sectors paid in advance and before energy bills. This means that while consumers may spend time with financial counselors to discuss energy bills, this is not necessarily the driving factor that is causing financial difficulty. Red and Lumo are concerned that under the current approach there remains the potential for energy to be overestimated in the percentage of time and household expenditure.

Just because a consumer sees a financial counselor about their energy bill in the first instance it is unlikely that energy is the only debt. In our experience, customers also have allocated their household income to other payments, such as housing costs, food and transport, and in some circumstances are experiencing financial difficulty due to addictions such as gambling. Therefore the risk is that although energy may not be causing the financial problems it may be disproportionately being held to fund support through financial counselling support for the customer facing financial difficulty.

As noted above, the scheduled two year review of the industry body must also assess alternative funding models. This should analyse the data and better reflect the entire debts and spending of a consumer who is facing financial difficulty (including bills they have already paid in advance or non-discretionary items). Through an evidence based approach, it will ensure that all industries that impact customer expenditure and contribute to the customer's financial difficulty rather than just looking at the latest invoice which is discussed with a financial counsellor. This would avoid sectors paying a disproportionate amount of the funding for the industry body, and ensure that proportionality and transparency is provided to the contributing parties.

Peak bodies for funding collection

While Red and Lumo understand the decision to use peak bodies for collection of funding we are concerned about how this will work in practice. In particular, we question how these bodies will collect funds from organisations if they are not members of the body or alternatively if these bodies are adequately set up to collect and hold large sums of money? The Australian Energy Council (AEC) for example represents a number of energy providers but does not represent all who may contribute or be expected to contribute. We are concerned that this will disincentive energy retailers that are not part of the AEC to contribute to this important service. Red and Lumo would strongly recommend that this be further examined before an expectation is placed on these bodies to collect these funding commitments.

Evaluation of performance

A key element of organisational good governance is the establishment of strong and effective key performance indicators and this organisation should not be any different. Red and Lumo are concerned that the current model appears to start the organisation and acquire funding from industry with the performance management and metrics being established several years after the down the track or during the operation of the organisation.

Although Red and Lumo are supportive of a two year evaluation of the body as this appears to be an appropriate time frame to assess its performance, we are extremely concerned that there will not be any clear indication on how performance will be measured prior to the start of the funding.

The current approach risks inefficiencies being built into the system as the organisation would not have the strong foundational elements for success (accountability, transparency, responsibility, risk management as well as clearly defined organisational rules and goals). Furthermore, there needs to be clear reporting and performance metrics placed on the financial counsellors who will be receiving funding through this organisation. Parties that have contributed funding should be able to clearly see how the funding is being used to improve outcomes and engagement by their consumers.

It is crucial that all of these elements are in place well before the start of the organisation to avoid the risks of poor governance organisational issues only being detected at the two year review. Importantly good governance arrangements and appropriate performance metrics for the organisation as well as financial counsellors receiving funding will ensure that consumers are getting value for money and that “businesses that contribute to the industry funding model are likely to receive a number of broad benefits from increased financial counselling services.”[3] Again it would be appropriate for the start of the independent body to be delayed until 2024 to allow time for these governance measures to be established.

Board and organisational structure

Although Red and Lumo’s preference would be for industry representation on the board (mostly aligned with option 2 in the consultation paper) it is even more important that the board should be required to publicly present on performance to the contributing bodies. This would be similar to the operation of public companies that are required to annually present on performance to shareholders or investors. This will provide a level of transparency and oversight of the organisation to ensure that it continues to provide high performance and deliver value for money for consumers

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in New South Wales, Queensland, South Australia, Victoria and in the ACT to over 1.2 million customers.

Should the Department have any enquiries regarding this submission, please call Stephen White, Regulatory Manager on 0404 819 143.

Yours sincerely

Stefanie Monaco
Manager - Regulatory Affairs
Red Energy Pty Ltd
Lumo Energy (Australia) Pty Ltd

[3] Australian Government Department of Social Services, Financial Counselling Industry Funding Model, Discussion Paper, November 2022, p2