AGL Energy Limited
T 02 9921 2999
F 02 9921 2552
agl.com.au
ABN: 74 115 061 375

Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065

16 December 2022

Financial Counselling Review Team
Department of Social Services
GPO Box 9820
Canberra ACT 2601

Submitted via webform: engage.dss.gov.au/financial-counselling-industry-funding-model

Financial Counselling Industry Funding Model – Discussion Paper

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AGL Energy (AGL) welcomes the opportunity to provide feedback to the Department of Social Services' (the Department) Financial Counselling Industry Funding Model Discussion Paper, dated 7 November 2022.

AGL is a leading integrated essential service provider with a proud 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. As one of the largest providers of essential services, AGL has extensive experience in supporting customers affected by payment difficulty, vulnerable circumstances, and entrenched financial hardship through:

- AGL's Staying Connected' hardship program for customers experiencing affordability issues
- Partnership agreements between AGL and various financial counselling bodies which support our customers
- Administering jurisdictional energy concession schemes and utility relief payments for eligible customers
- AGL's Family violence protections framework and COVID-19 support program
- AGL's life support protections for customers relying on critical medical equipment to sustain life

Our feedback to the Financial Counselling Industry Funding Model Discussion Paper reflects AGL's long-standing history of providing support to our customers, our experience working directly with financial counsellors, our payment difficulty and hardship obligations under various energy-specific regulatory frameworks and ongoing contributions to regulatory reform consultations.

AGL supports the principle that a fair and efficient cross-industry, charitable funding mechanism can facilitate improved access to financial counselling services for customers who need it most.

While the Financial Counselling Industry Funding Model (the industry funding model) is now some years in the making, we note that the Discussion Paper and the proposed model remain light on detail with respect to a number of critical aspects that would determine how each subsector and its participants mobilise their respective contributions. Accordingly, AGL is concerned that the proposed 1 July 2023 implementation date will leave the Department and participating industries with insufficient time to resolve a number of the outstanding issues relating to:

- the apportionment of funds within the energy subsector;
- the 'discretionary' aspect of the funding contributions;
- appropriateness of industry peak bodies to seek funding commitments; and
- the development of key performance metrics that would serve to monitor the effectiveness of financial counselling support following the commencement of the industry funding.

Other industry funding arrangements

AGL recognises the significant contribution that the financial counselling industry makes towards improving not only customer payment outcomes but, for many Australians experiencing financial distress, their quality of life during difficult times. As access to energy is considered to be a non-discretionary service, many energy retailers operating in the National Energy Market (NEM) already support their financial counselling partners through bilateral sponsorship agreements that enable customers to regain control of their financial circumstances while continuing to meet their energy needs. Commercial funding arrangements of this type allow both parties to negotiate on desired performance indicator metrics that inform retailers' hardship engagement policies and allow for continuous improvement, while the ability to refer customers directly to the retailer's financial counselling partner/s also alleviates time and resourcing pressures on the National Debt Hotline.

The Discussion Paper does not contemplate how the proposed funding industry model would impact existing commercial arrangements between energy retailers (or other subsector participants) and financial counselling bodies, noting that for some industry participants it may not be possible to maintain both a contractual relationship and ongoing annual contributions, particularly in the context of recent energy market volatility. However, the Department has indicated during this consultation that in order to meet the funding shortfall, all identified subsectors would need to contribute, thereby creating tension between existing commercial arrangements and the proposed industry funding model.

The Department should carefully consider the implications on resourcing and accessibility of these services if such commercial arrangements were to cease, and the volume of customers currently being referred to financial counselling partners were to be redirected towards national debt services and financial counselling bodies. Leaving this aspect of the industry funding model unaddressed will result in participants only replacing one type of financial counselling funding arrangement with another, an outcome that will not materially improve the overall standing of the financial counselling sector.

Apportionment of funds within the energy industry

AGL supports a fair and transparent distribution of funds across subsector participants where all participants contribute their reasonable share based on the demand created on financial counselling services.

With respect to the energy industry, the Department is proposing to apportion the percentage of each retailer's contributions to the industry funding model based on their market share of small customers. AGL recommends that the Department consider whether the number of vulnerable and hardship customers proportionate to each retailer's total small customer base would be a more appropriate metric to determine each retailer's funding contribution. This data is available through retail performance indicator reports and annual reviews/reports published by the Australian Energy Regulator, Essential Services Commission of Victoria, Economic Regulation Authority of Western Australia, and Utilities Commission of the North Territory. This approach more accurately reflects the demand for financial counselling services generated by each energy retailer's customers, as opposed to the retailer's total market share where only a small portion of overall customers seek to access financial counselling services.

Voluntary sector contributions

The Department envisions that most, if not all, participants across the industries identified as driving demand for financial counselling services, will voluntarily contribute their respective portion of the annual funding quantum. While AGL strongly supports our financial counselling partners, it is pragmatic to anticipate that some participants may be unwilling or unable to contribute the full amount year on year, particularly in light of the domestic and international pressures on the energy industry.

Beyond the philanthropic need to assist the financial counselling industry driving the scheme, the Department does not propose incentives or consequences to encourage contributions to the industry funding model, which we believe potentially distorts the principle of fairness as invariably some industry participants or sectors will be left to pick up the shortfall created by non-participants.

AGL appreciates that there is no simple solution to this issue. Mandating that each participant must contribute and how much, as well as establishing an enforcement framework would create new challenges and prolong the delay in operationalising the industry funding model. Participation in the scheme could be incentivised if members had access to detailed performance reporting metrics generated through the industry funding model, as described below. Data from the financial counselling industry has intrinsic value to energy retailers who can utilise the key metrics to refine their early identification programs, drive customer engagement strategies and improve debt outcomes, as well as make improvements to systems and processes that ultimately reduce costs to serve.

The Department will need to solve for this aspect of the industry funding model from the onset to ensure longevity of the scheme and to promote fair and transparent participation across subsectors. We encourage the Department to consult with representatives holistically and bring together all subsectors to work out an approach that is appropriate and viable for all members.

Role of industry peak bodies

The Department proposes that, in the formative stages of the industry funding model, peak industry bodies for each subsector will be responsible for securing contributions from members. As we understand, initially this will be by way of peak industry bodies procuring letters of commitment, with this responsibility then shifting to the new, independent body that will be established during the first year of the industry funding model scheme.

AGL agrees that the independent industry funding body is the most appropriate funds collection and distribution mechanism. However, the proposed peak industry body interim solution creates several challenges that have not been fully addressed in the paper. For example, there are a number of energy retailers that are not members of the peak industry body, including those that are outside of the NEM jurisdiction. The Department does not articulate how funding commitment would be sought from non-members and, in instances where a participant declines to contribute, whether there would be an adjustment or redistribution of the subsector quantum amongst committed participants who would then have to pay more than their allocated share. This risks disincentivising participation and leading to inequitable outcomes for those contributing the funding.

Notwithstanding the above, if the Department elects for peak body organisations to undertake the collection of funds from members, AGL's prefers Option 1, for peak bodies to work with their subsector to determine how individual contribution amounts are determined within each subsector.

Monitoring Performance Outcomes

It is important that the Department establish an effective evaluation and monitoring framework at the onset by implementing clear performance indicator reporting requirements for both the independent, not-for-profit body and recipients of the funding. It is best practice that any taxpayer/consumer-funded model needs to have clear performance metrics available in the public domain to assess customer service outcomes versus value for money for consumers who will ultimately be funding this scheme.

In addition to the proposed biennial review of the industry model, we recommend that the following data points are captured and reported on a quarterly or half-yearly basis:

- A detailed breakdown of how and where the funding was distributed across eligible financial counselling institutions.
- Metrics relating to funding allocated to innovation and capability building in the financial counselling sector (e.g., the number of new financial counsellors trained or upskilled each reporting period).
- The number of customers accessing financial counselling services compared to pre-funding, broken down by each contributing subsector.
- The number of customers who are entering into industry-specific payment arrangements or hardship programs compared to pre-funding.
- The number of customers reducing arrears, clearing debt, and avoiding bankruptcy, broken down by each contributing subsector.
- Changes in debt levels over time for customers who have accessed financial counselling services, broken down by each contributing subsector.
- Insights regarding the amount of 'new customers' vs 'return customers' accessing financial counselling services.
- Net promoter assessment of consumers who sought and received financial counselling support to understand their experience with the counselling service.

We encourage the Department to take on a pragmatic approach to monitoring the performance outcomes of the industry funding model by collecting performance data for each reporting period across the first three-year and then evaluating the data and outcomes to inform the level funding required for the next three years. Tangible metrics will also assist in determining whether the industry funding model is achieving the desired policy and customer outcomes.

Commencement Date

To resolve the issues raised in our submission above, allow for sufficient time to establish the independent, not-for-profit body and enable participants to arrange internal funding commitments for the next financial year, AGL recommends that the Department defer the full commencement date until 1 January 2024.

In the interim, we encourage the Department to continue its stakeholder engagement process throughout 2023 by bringing together sector and subsector representatives as well as industry peak bodies to holistically address the challenges and implications of the industry funding model. The Department may then wish to hold another formal consultation process for further comments and feedback from subsector participants.

If you would like to discuss any aspect of AGL's submission, please contact Valeriya Kalpakidis at vkalpakidis@agl.com.au.

Yours sincerely,

Con Hristodoulidis

Senior Manager Regulatory Strategy

AGL Energy