

20 March 2023

Select Committee on Cost of Living
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Sir/Madam,

Submission Select Committee on Cost of Living

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to share our submission to the Senate Select Committee on Cost of Living. To find out more about our Centre please visit www.consumeraction.org.au.

Consumer Action's, service-delivery and advocacy work can provide valuable insight into the nature and structure of consumer markets and how they systemically disadvantage low-income individuals and households. Consumer Action's financial counsellors and lawyers advise and assist people experiencing financial hardship and poverty on a daily basis. The data Consumer Action collects, as well as the reflections of our staff, indicate a large client base struggling with debts and the cost of living in Australia.

Demands on our services are increasing

In responding to the cost of living crisis, consumers are contacting our services for advice and assistance. In 2022, there were 6,494 contacts to our financial counsellors via the National Debt Helpline (**NDH**) which represents 60% of Victorian NDH callers and, more recently, people from Queensland contacting the NDH through our new online chat service.

Consumer Action has seen a noticeable uptick in demand and complexity of issues on our NDH phone lines since the beginning of this year. According to the NDH national data, in January and February, there were 4,987 calls to the National Debt Helpline in Victoria - around 50% higher than in the same two months last year (3,323).

Our financial counsellors report growing complexity and multiple issues presenting on the phone lines. Anecdotally, our frontline staff, who we have interviewed, have recently described many more clients having fewer options to improve their circumstances and cannot make ends meet. Callers are more distressed as a direct result of their financial hardship and rising costs of living.

The Poverty Premium

Our clients, because of their financial disadvantage, are more likely to pay a poverty premium for the essential goods and services they need to maintain a basic standard of living. Default fees, premiums, and engagement barriers all create market conditions where people experiencing financial hardship and insecurity are often forced to pay more for basic services than others. We refer to this as the 'poverty premium.' This premium both drives and exacerbates poverty by trapping people in financial difficulty and charging them more for services they are already struggling, or unable, to afford. There are extensive examples of the poverty premium in action, and we refer the

committee to [our previous submission](#) to the Inquiry into the Extent and Nature of Poverty in Australia for further discussion of the issue.

Multiple financial difficulties and the burden of growing debt

Consumer Action's client base largely consists of people experiencing financial hardship and poverty, and their experiences are a critical reflection of what is causing the most stress for people and how they could be better protected. Our clients are largely made up of recipients on income support payments, and only 24% of people who contacted our service in 2022 cited paid employment as their main source of income. In depth analysis of Consumer Action clients with energy affordability and debt issues indicated that the average income of an energy caller in 2022 was a mere \$967 per fortnight, placing most of these callers around or below the poverty line.¹

In 2022, 33% of contacts to our financial counsellors involved clients who indicate that they were dealing with multiple financial difficulties and multiple debts. Our clients are experiencing significant difficulty in stretching their limited income to cover their living costs and manage debt repayments. The most common financial difficulties in 2022 our clients reported and that we recorded, were

1. credit card debt (15%),
2. mortgage arrears (12%), and
3. electricity bills (10%).

However, a closer examination of our data has revealed that in 2022, 33% of contacts to our financial counsellors involved clients who indicated that they were dealing with *multiple financial difficulties compounded by multiple debts*. Our advice line staff speak to people calling our service everyday who are experiencing significant difficulty in stretching their limited income to cover their living costs and manage debt repayments.

Credit card debt

Many of our clients are struggling to afford day to day living costs, a challenge which is only made worse by credit card debt obligations. People calling the National Debt Helpline often have simply insufficient income to pay for everything they need to live safely and comfortably, and in many cases, they are forced to rely on credit to cover the basics. Credit card debt is the prevailing financial difficulty type for NDH callers, and these debts are commonly accrued by people experiencing financial hardship to cover standard living costs when their income falls short. Our clients then find themselves in a position where the credit they accessed due to financial difficulty is further contributing to that difficulty.

Case Study - Pamela

Pamela (name changed) is dealing with a serious health condition and lives with her husband and three children. Both Pamela and her husband are employed and have previously been able to manage their family's expenses, but recent interest rate hikes have made their situation much more difficult.

Pamela told our financial counsellors that she has a mortgage and two credit cards with almost \$50,000 in debt. She said she has historically been able to meet repayments but now feels very stressed and overwhelmed by her financial situation. Pamela was also concerned about the impact of this stress on her health condition. She told our financial counsellors that she was diagnosed over a decade ago and has been able to manage everything until recently. Pamela and her husband are finding it difficult to repay their credit cards and mortgage in addition to their household bills and expenses.

Our financial counsellors referred Pamela to a local financial counselling agency for ongoing advocacy and support.

¹ Australian Council of Social Service, *Poverty in Australia 2020: Part 1 Overview*, p. 11, https://povertyandinequality.acoss.org.au/wp-content/uploads/2020/02/Poverty-in-Australia-2020_Part-1_Overview.pdf.

Mortgage arrears

As interest rates increase, we are receiving an increase in the number of callers reporting problems with managing their mortgage repayments. Mortgage arrears was the second most common financial difficulty type for our clients in 2022. Callers who reported that they were struggling with mortgage repayments made up 12% of total contacts, while only 18% of all callers identified that they were living in a home with a mortgage. Comparatively, tenants made up a larger percentage of NDH clients, representing 32% of total contacts. Mortgage and interest rate rises have only increased the challenge and stress of meeting repayments while covering other essential costs of living.

Case Study - Adrienne

Adrienne (name changed) is a single parent and victim-survivor of family violence. She called the National Debt Helpline in June 2022 to discuss her mortgage arrears and utilities debts. Adrienne's main income source is Centrelink and most of her income is committed to her mortgage repayments.

Adrienne has a hardship arrangement with her mortgage lender but said that they have been difficult to deal with from the beginning. She told our financial counsellors that the lender was aware of the family violence and knew her income when they asked for 70% of that income in monthly repayments. After repaying both her mortgage and her payment plans for her utility bills, Adrienne said she has less than \$300 per month for other essential expenses. This is an incredibly low amount to provide for her family, and Adrienne indicated that despite very effective budgeting she still needs support from family members on occasion to afford food.

Our financial counsellors supported Adrienne to apply for the Power Saving Bonus (**PSB**) to assist with her energy bills and referred her to a local financial counselling service for ongoing support with her utility bills and mortgage.

Electricity costs

The third most commonly occurring financial difficulty type flagged by our financial counsellors was electricity affordability. This is an essential service that people tend to prioritise paying, and so difficulty paying energy bills is often the 'canary in the coal mine' of acute financial hardship. Over 70% of callers to the National Debt Helpline presenting with energy affordability issues also reported at least one other debt and/or payment difficulty. Callers with energy issues were often also struggling with housing arrears and their day-to-day living expenses, with many using credit and products such as BNPL to keep up.

Case Study - Elaine

Elaine (name changed) first called the NDH in June 2022. She has experienced family violence and is dealing with mental and physical health challenges. Elaine was disconnected the day she called and estimated that she owed her retailer around \$4,000. She indicated that dealing with debt was not a priority for her while she was navigating and escaping an abusive relationship, and that things had recently escalated.

Elaine told the NDH that she accessed URGS in 2014 and had tried to apply again three times with no help from her retailer. She said she requested paper forms that never arrived on one occasion and applied over the phone twice, but nothing ever happened with the applications. Elaine reported that she had been paying \$30 each per fortnight for electricity and gas but stopped payments around a month prior to being disconnected. In July, she said she had already had to pawn her possessions to keep up and had received a notice to vacate her home after falling behind on rent.

The financial counsellor referred Elaine to the Energy and Water Ombudsman of Victoria (EWOV) to get her reconnected as soon as possible and discussed URGS. Elaine later told us that her energy debt had been waived by her energy retailer after she contacted EWOV.

We are extremely concerned about the rising cost of energy, with the average bill for customers on the Victorian Default Offer (VDO) expected to increase by 31% in 2023-2024² and default retail plans under the Australian Energy Regulator (AER) facing increases of up to 24%³. These price rises will result in more and more households struggling to pay their bills and falling into arrears, as well as increasing the general pressure they face to cover the cost of living for themselves and their families.

We need to have a broader conversation about improving access to concessions, and removing barriers to accessing concessions that are currently available for essential services, for the cohorts of people in increasing financial hardship.


Raise the financial safety net

The financial social safety net in Australia is not adequately providing the security and wellbeing for the most financially vulnerable in this country, and there is a pressing need for immediate and permanent increases to social security payments. The recent modest increase in JobSeeker payment rates is not sufficient to keep pace with the rising cost of living. Our call data highlights that people relying on JobSeeker and other Centrelink payments to support themselves and their families are struggling acutely with covering expenses for even their most basic needs. We support the recommendations of the Raise the Rate Campaign to increase JobSeeker payment rates and supplements for single parents and people living with disability/illness.⁴

We also recommend increased funding to other crisis and support services that provide direct financial assistance to people in poverty. This includes the no interest loan scheme (NILS) program and the national rollout of flexible support packages for family violence victim-survivors, to provide immediate and tailored support for people experiencing poverty and vulnerability.

Thank you again for the opportunity to provide comments on the cost of living crisis in Australia and the pressures facing households experiencing financial difficulty. **We would welcome an invitation to a hearing to give us an opportunity to discuss in more detail.** Please contact Tania Clarke on (03) 9670 5088 or at tania@consumeraction.org.au if you have any questions about this submission.

Yours sincerely



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CONSUMER ACTION LAW CENTRE

² Essential Services Commission, *Victorian Default Offer 2023-24 Draft Decision Paper*, p.1, <https://www.esc.vic.gov.au/sites/default/files/documents/DDP%20-%20Victorian%20Default%20Offer%202023-24%20-%20Draft%20Decision%20-%2020230316.pdf>.

³ Australian Energy Regulator, *Default Market Offer 2023-24 draft determination*, <https://www.aer.gov.au/news-release/default-market-offer-2023%E2%80%99324-draft-determination>.

⁴ Raise the Rate, *About the campaign*, <https://raisetherate.org.au/about/>.

About Consumer Action Law Centre

Consumer Action Law Centre is an independent, not-for-profit consumer organisation based in Melbourne. We work to advance fairness in consumer markets, particularly for disadvantaged and vulnerable consumers, through financial counselling, legal advice and representation, and policy work and campaigns. Delivering assistance services to Victorian consumers, we have a national reach through our deep expertise in consumer law and policy and direct knowledge of the consumer experience of modern markets.

