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## **Submission on the Productivity Commission Telecommunications Universal Service Obligation Draft Report**

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## **Introduction**

### **Who Are We?**

The South Australian Council of Social Service (SACOSS) is the peak representative body for the non-government health and community services sector in South Australia. SACOSS believes in justice, opportunity and shared wealth for all South Australians. We have a strong membership base representing a broad range of interests in the social services area, and our core activities include analysing social policy and advocating on behalf of vulnerable and disadvantaged South Australians.

SACOSS has a particular interest in telecommunications arising from our research on cost of living pressures on South Australian households, and more recently from the joint research undertaken with ACCAN on telecommunications affordability. The Draft Report cites the preliminary data from this joint research (p.14, 202), but our research was ongoing when the Draft Report was being written and could not fully inform the Productivity Commission's deliberations. This submission draws on the relevant parts of our research in the final report, *Connectivity Costs* (Ogle & Musolino, 2016).

### **Scope of the Submission**

We thank you the Productivity Commission for the opportunity to provide comment on the Telecommunications Universal Service Obligation Draft Report (hereafter "Draft Report"), and we welcome the recognition that the USO is out of date and the subsequent recommendations for inclusion of broadband as a baseline service.

SACOSS believes that telecommunications is an essential service and that access, affordability and digital literacy/competence are all important issues in narrowing the digital divide and enabling all Australians to participate in an increasingly digitalised society and economy. The USO is relevant to all three areas, but this submission focuses only on the issues of affordability. This is because of our research background and interest in affordability issues, and because we believe that the Draft Report underestimates the challenges of affordability for many households. In turn, this has implications for the framing of the report and potentially for the findings and recommendations in relation to the USO.

### **The Treatment of Affordability in the Draft Report**

The Draft Report provides a range of data to support the view that affordability is not a major challenge that needs to be addressed through the USO. As we understand it, the argument in the Draft Report is essentially that prices have been going down, the value obtained per dollar spent on telecommunications has been increasing and the overall expenditure is a relatively minor part of average household consumption – all of which means that baseline telecommunications are affordable for most people.

The analysis of price decreases evident in the CPI data and the increased quality of goods and services available is sound, but this must be balanced against the rapidly increasing demand for telecommunications services. This increasing demand is both a product of changing technology, culture and social expectations, but also of government policy which is moving primary contact with government online. The key question in the household budget then is whether this increased demand is compensated for by decreasing costs.

With the ABS *Household Expenditure Survey* data now hopelessly out of date in relation to such fast-changing technology use (and what the Draft Report refers to as “exponential increase in data usage”), we are pleased to see more up-to-date data on household expenditure in the Draft Report. The data in Chapter 6.3 suggests that telecommunications expenditure accounts for less than 3% of household income, and that that figure has fallen from 2006-2014. These figures provide the basis for the approach of the Draft Report in largely dismissing the importance of affordability issues (at least for general population). While we do not question this data, there are a number of important qualifications which may impact on the conclusion that affordability is not a major issue.

Firstly, we note that even at the apparently low figures of around 3%, telecommunications expenditure at the time of the ABS *2009-10 Household Expenditure Survey* was more than domestic fuel and power (Ogle and Musolino, 2016, p 15). Obviously the price trajectories have been very different since then, but even 3% of household expenditure can not be dismissed as unimportant – particularly for low income households. Moreover, the Draft Report (Table 6.9) shows that for the lowest income quintile, telecommunications accounts for 6.3% of household disposable income. Again, reading across from the ABS *HES* data, this would likely put it among the top household expenditure items after the “big 3” of housing, food and transport. In light of this, it was not surprising that two-thirds of the low income respondents in the SACOSS survey rated telecommunications among the top 5 most important factors in the household budget (Ogle & Musolino, 2016, p 15-16).

We also note that the expenditure data in the Draft Report (and the HILDA source questions and data) appears only to refer to the services, and not to the hardware which is essential to using telecommunications. While the cost of a mobile phone may be included in monthly plan fees, this is not always the case (especially on the cheaper plans) so the actual expenditure on telecommunications may be more than accounted for. Similarly, the costs of other hardware need to be considered, although we recognise that this involves enormous technical and taxonomy issues. While internet-connected laptops and tablets may be significantly and perhaps even predominantly used for telecommunications, they may also be used for other functions. The categorisation of hardware expenditure gets even messier when we go to smart TVs, internet enabled vehicles, etc.

The point in this submission is not to fully define and cost this telecommunications hardware expenditure, but simply to highlight that the figures used in the Draft Report on the share of disposable income spent on telecommunications may under-state that expenditure and its relative importance. This hardware issue is also relevant to the USO because the “old model” of standard service provision included the rental of the hardware of the phone and line, while new technologies mean that the necessary hardware devices are now privately purchased. Given that the devices are a necessary part of the communications, they should be taken into account in consideration of the cost of telecommunications – even if they are no longer provided exclusively by the USP.

Finally in relation to the significance of telecommunications in the household budget, we note that while Figure 6.4 of the Draft Report shows the telecommunications share of household expenditure declining overall since 2006, the share actually increased in the last

year of graph (2014). We do not know what has happened since then, but again this suggests caution is need before dismissing affordability concerns.

Beyond the issue of the relative importance of telecommunications spending, we have been able to view an early version of ACCAN's submission on the Draft Report. In relation to affordability issues more generally, we note their critique of a number of aspects of the Draft Report's technical assessment of affordability, including:

- the limited representatives of the plans used in pricing comparisons,
- the lack of consideration of quality of services in some cases, and
- the implications of growing demand for higher speeds and more data in the future.

We do not wish to add to ACCAN's submission on these issues, other than to note in relation to those on low incomes that it should not be assumed that they can or should automatically settle for the lowest speeds and connections as the basis of affordability. The SACOSS survey showed that those on low incomes use telecommunications for a similar range of activities as the general population, as well as for crucial functions like looking for housing and employment, while children and education were major drivers of demand for all users (Ogle & Musolino, 2016, p. 10). An approach which measures affordability by the provision of second-class services fails to see digital inclusion as an investment in people and community, and risks creating inequality within those who are technically on the right side of the digital divide.

We are also concerned because the Australian Digital Inclusion Index shows that affordability is the only headline inclusion indicator which is going backwards nationally (Thomas et al, 2016). The Draft Report briefly considers the ADII data, but largely dismisses it with the confusing introduction of a distinction between essential and non-essential telecommunications. While the ADII does not make any distinction along these lines, it is unclear why the Draft Report does – given that it acknowledges that the distinction is subjective (p.162). We agree that the distinction is subjective and arbitrary, especially when even “social” uses of telecommunications are now an important (and for some, primary) way of engaging with society and being part of community. Further, we note that the essential/non-essential distinction is not one that is made in relation to other essential services: for instance, the the water used in the 5<sup>th</sup> minute of a shower, or the electricity used in watching TV. Accordingly, we do not believe that the ADII data can be dismissed as easily.

Given all of the above, we believe that the Draft Findings 6.4 and 6.5 may be overly optimistic in seeing affordability as a limited concern that can be dealt with simply by targeted (welfare) interventions, and we believe that the Draft Report generally underestimates the importance of affordability in its consideration of the USO.

### **Specific Affordability Issues and the USO**

While our analysis above suggests that affordability is a more significant issue than is suggested in the Draft Report, we acknowledge that the Draft Report accepts that affordability is a concern for some households. In this context, the Draft Report cites the findings of the recent SACOSS survey of 500 low income households where 62% reported difficulties paying telecommunications bills (p.202). However, as noted above, this was

drawing only on the preliminary data published by SACOSS. The final report, *Connectivity Costs*, also includes focus group research in Adelaide and contains more findings of relevance to the issues of affordability and the USO (Ogle & Musolino, 2016). These are considered below.

### **The Centrelink Telephone Allowance**

A major focus of *Connectivity Costs* was the Centrelink Telephone Allowance. This is particularly relevant given that, having suggested that affordability issues were confined to relatively small groups within the community, the Draft Report suggests that affordability is best dealt with through the tax-welfare system, rather than the USO (p.14). SACOSS agrees that the income support system has a crucial role to play in ensuring that low income households can afford essential services like affordability. However, what is clear from the SACOSS data is that the system is not currently doing that, because the CTA is inadequate and poorly targeted and because the amount of some income support payments is simply not enough to live on.

While the headline figure of the SACOSS research was that 62% of respondents had difficulty paying, cut back or stopped using telecommunications services in the last 12 months, there were crucial differences between groups of Centrelink recipients. The data clearly showed that the CTA was often not available to those who needed it (eg. single unemployed people) and so 69% of those who did not receive the CTA had difficulty paying, cut back or stopped using telecommunications services. Meanwhile more than 70% of those who received the CTA at the lower level also struggled with telecommunications affordability – largely because the base level non-pension payments like Newstart and Youth Allowance are simply inadequate. By contrast, “only” 31% of aged pensioners reported the same struggle with telecommunications affordability, in part because of lesser usage and in part because they had a higher base rate income (Ogle & Musolino, 2016, p.26).

The SACOSS data also showed that the existing CTA rates were largely viewed to be significantly below an amount that would make a difference to affordability. The lowest rate at which a majority of respondents thought it could make a difference was twice the current base rate. *Connectivity Costs* recommended that an enhanced CTA be reviewed to make it available to all those on income support (reflecting that it is an essential service) and that the adequacy of income support payments be reviewed to ensure that those in receipt of payments can afford essential services like telecommunications.

We note that Draft Recommendation 9.3 supports a review of the Telephone Allowance (among other accessibility and affordability measures). However, without knowing the outcome of such a review or what the income support might look like – it is arguably inappropriate to frame the other recommendations around the USO. Essentially, the Draft Report is putting recommendations about the USO forward on an assumption or hope that the affordability issues for the particular groups it identified will be looked after elsewhere. But in the absence of an income support system that is properly addressing telecommunications affordability, the Draft Report should not make that assumption, nor simply assume that the affordability issue can be simply shunted off to the tax-welfare system.

At a minimum, the Draft Report should make recommendations as to how the tax-welfare system should address telecommunications affordability rather than simply supporting a proposed review (Draft Recommendation 9.3). Again, *Connectivity Costs* provides some suggested directions for this in relation to the CTA and income support payments.

### **Affordability in the Market**

The focus groups conducted by SACOSS with low income earners clearly suggested that telecommunications affordability issues go beyond simply the tax-welfare system and that there were affordability challenges in the market itself (Ogle & Musolino, 2016, Ch 4). What emerged from the focus groups was a clear indication of the importance of data costs and allowances. Again, in this context we welcome the Draft Report clearly acknowledging that the current USO focus on a standard telephone service is out of date. However, it is evident from the Australian Digital Inclusion Index data that those on low incomes are paying a poverty premium for data – by SACOSS’ calculation, data was costing those in the lowest income quintile approximately five times the price per unit paid by those in the highest income quintile (Ogle & Musolino, 2016, p 36). This is a product both of the higher cost of data on cheaper mobile plans, and a greater reliance on mobile data for low income earners (given that mobiles are often the only form of telecommunications used by those in financial hardship (Humphry, 2014; Wise, 2013).

The SACOSS research also noted that the search for affordable data often led those on low incomes to sign up for plans with other costs and inappropriate billing or contract arrangements. This added to the actual costs of telecommunications and the stresses dealing with telecommunications affordability. What is needed is hassle-free data at an affordable price on low cost/usage plans – yet these products are simply not on the market, precisely because those on minimum incomes do not collectively have the market power to effectively demand the products that would most useful and affordable. Similarly, those on low incomes faced market barriers such as relatively high exit fees on lock-in contracts and enforced unfavourable billing arrangements which made payment more difficult and often attracted late payment of bank default fees. These issues are crucial to telecommunications affordability because, while they are not captured by straight market price analysis, they impact on the overall costs of telecommunications for those who are most likely to face the hidden fees and charges.

*Connectivity Costs* made recommendations for additions to be made to the *Telecommunications Consumer Protections Code* to address some of these issues (for instance, waiving early-exit fees for Centrelink consumers and requiring retailers to offer choice of payment methods), but some of these issues could also be addressed through a universal service obligation focussed on affordability. Where and how this is best done may depend on a range of factors and on how the USO is eventually framed, but it does require going beyond simply seeing the nbn as a universal service provision (as per Draft Recommendation 7.1). While this wholesale provision is an important base, the issues identified here are retail issues that still need to be part of the consideration of affordability and the USO. Again, the Draft Report simply sees these as things to be investigated later, separate from the core USO recommendations (Draft Recommendation 9.3), yet what was clear from the SACOSS focus group research was that these retail considerations were

important affordability barriers and that we can't simply assume that a competitive retail market will sort out affordability issues for those on the lowest incomes.

### **Government Websites**

One further issue that arose in SACOSS' research was the cost of dealing with government. Many focus group participants complained about the cost of phoning Centrelink and potentially running out of pre-paid call credits while on hold. Some participants reported that the cost of dealing with Centrelink was a factor in choosing phone plans. While Centrelink's appalling call response times are beyond the scope of the USO, a similar issue arises in relation to data. As government moves more and more interactions online, then it is reaping savings while transferring the cost of accessing government information and services onto telecommunications users. This has implications for affordability and also, where those websites are seeking input to government policy (eg. via this Productivity Commission inquiry), for the right and ability to participate in the democratic process.

SACOSS believes that access to government information and services online should essentially be free – that is, accessing government sites should not be metered as part of consumers' data usage. There are some precedents for this in limited trials of access points in Ceduna in South Australia where government data is provided free, and of course different telecommunication retailers have entered into a variety of toll-free arrangements with OTT services like Netflix, Stan and Presto. Whether this free access is best done as part of retailers licence conditions, a USO obligation (perhaps in the alternative to the Telecommunications Industry Levy which is proposed to be abolished [Draft Recommendation 8.2]) or by individual arrangements with government (and therefore whether the cost is borne by the market or by the government as the paying "consumer") is a matter that would need to be considered. However, the issue should be on the table as part of the consideration of affordability and the USO.

### **Conclusion**

As a peak welfare organisation, SACOSS is not an expert on telecommunication policy and therefore has left the detail of policy solutions to others. However, the data from our research suggests that a greater focus on affordability is needed and that affordability issues will not simply be dealt with either through the tax-welfare system or by leaving it to the market. In that sense, SACOSS supports a more government-interventionist approach than is envisaged in the Draft Report, and again we are concerned that the Draft Report proposes a USO regime while leaving these crucial affordability issues to be sorted out elsewhere. Specifically, we believe that:

- Draft Findings 6.4 and 6.5 are overly optimistic and minimise the affordability issues for significant sections of the community;
- Draft Recommendation 9.3 contains useful pointers to key issues which need to be addressed in relation to telecommunications affordability, but that the absence of any clear direction or outcome in those areas makes it difficult and potentially dangerous to come to any final position on many aspects of a future USO;
- Draft Recommendation 9.3 needs to be strengthened by pointing to clear directions for change in the mechanisms and issues covered;
- Recommendations are required for specific market regulation (either through a USO or licence requirements) to remove identified market barriers to affordability (for

instance, waiving exit fees for Centrelink consumers and requiring choice of payment methods); and

- Consideration should be given to requiring retailers to provide unmetered access to government websites, particularly if Draft Recommendation 8.2 is to be acted upon and the Telecommunications Industry Levy is to be abolished, or alternatively other forms of free access need to be developed.

## References

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