



# Connectivity Costs

Telecommunications Affordability for  
Low Income Australians



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Greg Ogle and Vanessa Musolino

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“Connectivity Costs: Telecommunications Affordability for Low Income Australians”

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# Executive summary

There is little doubt that the place of telecommunications in the world has changed rapidly over the last 30 years. Copper-wire telephones and analogue technologies have been replaced by a digital world beyond personal communication, now encompassing many of life's essential tasks. Telecommunications now enable, and are increasingly required for, access to education, employment, government services, banking, shopping and entertainment. Further, the more traditional way of keeping in touch with family and friends via telephone, can now happen more instantaneously and across a range of platforms online.

However, while telecommunications are increasingly seen as essential, there are barriers to participating fully in this new digital age. Some people have poor access to necessary telecommunications where they live, others have low digital literacy, and a significant minority of Australians struggle to afford to connect and fully utilise telecommunications. While lack of availability and digital literacy are clearly important, lack of affordability is often overlooked as new technologies bring prices down but increase the need for telecommunications products.

The extent of the problem of affordability of telecommunications for low income Australians can be seen in the data from the survey of over 500 Centrelink recipients and Low Income Health Care Card holders conducted by Mint Research (2016) for this report:

- 66% of low income consumers rated telecommunication costs in the top five most important factors in their day to day household budgets;
- 62% reported experiencing either difficulty paying, having to cut back, or having to stop using one or more telecommunications services for financial reasons in the last 12 months;
- those on Newstart, Youth Allowance and Parenting Payment are most likely to have difficulty paying, be cutting back or stopping their telecommunications services, while those on the Age Pension have the fewest problems;
- low income families with dependent children are experiencing higher rates of financial difficulty with telecommunications than those without children; and
- around half of respondents said that they always, usually or sometimes limit their use of a mobile phone, while just under half limited their use of a landline phone (43%) and the internet (41%), and 10% stopped using a landline altogether.

If telecommunications are indeed essential, and the expenditure is significant and regressive (that is, impacting disproportionately more on low income households) and causing financial stress on households, then there is a clear role for government in assisting people to maintain access to this essential service. The main government income support to achieve this end is the Centrelink Telephone Allowance (CTA), which is a supplement to selected social security payments.

However, the eligibility criteria for the CTA are complex and opaque, and it seems odd that the groups of income support recipients that tend to struggle least with telecommunications costs are eligible for the highest rate of CTA (on top of already higher base payments), while those on lower base rates are less likely to be eligible for CTA, or only eligible at a lower rate.

Less than half of the recipients of the CTA surveyed by Mint Research were satisfied with the rate, and a majority of survey participants thought a doubling of the base rate would be required to make a significant financial difference.

Given that the CTA is poorly targeted, inadequate, and suffering from a legacy of being structured around home landline technology, the CTA needs to be upgraded to have a broader scope, wider eligibility, higher rates and more regular payments and/or in the longer term, telecommunications affordability needs to be factored into an assessment of the base rates of income support.

While government action is needed to support low income families with telecommunications affordability, there are also a range of market products and practices which themselves create barriers to affordability. These were identified in a series of focus groups with low income consumers conducted for this research. Most important is the lack of mobile data on affordable plans, and given that data is driving much telecommunications expenditure, this lack is creating stress and excess costs. There are also a number of products and practices which make managing telecommunications usage and payments difficult, including lock-in contracts, disadvantageous payment methods and billing cycles forced on consumers, and a lack of transparency around costs. The focus groups also identified problems in the hardship programs offered by telecommunications suppliers.

Unless both the CTA and these market barriers to affordability are addressed, we will continue to see a digital divide where low income consumers are missing out on telecommunications services, and subsequently, on life opportunities – at a cost to both them and the wider society.

# Introduction

Over the past 30 years the nature and place of telecommunications in people's everyday lives has changed dramatically. Where once the landline telephone stood alone as the essential telecommunications service, today the mobile phone and the internet dominate the way Australians communicate, connect and increasingly complete life's most essential tasks. This is part of a wider global trend that is not only transforming what is an essential telecommunications service, but also how we live, work and play.

Despite mobile and digital telecommunications being increasingly seen as essential, some Australians are missing out on participating fully in this new digital age. Some have poor access where they live, while others have low digital literacy. There is also a significant minority of Australians that are excluded because they are struggling to afford to connect and fully utilise telecommunications.

This report is concerned primarily with examining the affordability barriers for low income Australians. This is not to downplay the significant impact that a lack of availability and literacy has on the ability of many Australians to connect to essential telecommunications, but rather is in recognition that insufficient government and market attention is being paid to addressing the affordability barrier. Further as the Australian Digital Inclusion Index shows, while overall access and digital ability (literacy) are improving in Australia, affordability has declined in the last few years (Thomas, et al., 2016).

Affordability of telecommunications services is currently addressed in two ways: through the carrier licence conditions on Telstra that require it to "offer products and arrangements to low-income customers (the low-income package)" (Australian Government, 2015) and the Centrelink Telephone Allowance (CTA). These reflect an analogue age where a government monopoly aimed to provide access to landline telephones. In a digital world where services are available from a diverse market of providers offering a complex array of plans, prices and payment methods, the current affordability measures are failing to achieve telecommunications affordability for all Australians.

The Australian Communications Consumer Action Network (ACCAN) commissioned this report from the South Australian Council of Social Service. It is in response to our joint concern about the need to urgently upgrade the measures in place to assist low income Australians, so they can afford the telecommunications essential to full social and economic participation in the digital age. This report provides evidence of the

affordability barriers faced by those low income Australians, and makes recommendations for changes in both government and market spheres.

## **Report structure**

The report is broken up into five sections:

- Sections 1 and 2 outline the essential nature of telecommunications in today's world, and present new data on how low income Australians are struggling with telecommunications affordability and are limiting their usage and engagement in the digital world.
- Section 3 examines the Centrelink Telephone Allowance and considers how effective it is in helping low income Australians utilise essential telecommunications without suffering financial hardship.
- Section 4 analyses the suitability of telecommunications products on the market for low income consumers, identifying a range of poverty traps and barriers to affordability for low income consumers, and makes recommendations for product and market reform.
- Sections 5 summarises the findings and key recommendations of the report.

## **Methodology**

The first two sections of the report summarise established literature on current consumption patterns, the case for telecommunications as an essential expenditure, and the affordability challenges for low income consumers. However, this literature review is supplemented by data from a survey and a series of focus groups with low income consumers about their experience of telecommunications. The survey and the focus groups were specifically commissioned for and form the major primary research underpinning this report.

## **Survey**

The survey was commissioned by SACOSS and conducted in May 2016 by Adelaide-based market research company, Mint Research. The 12-minute survey was conducted via a mix of online and telephone questionnaires with a random sample of 523 telecommunications consumers across the country whose main source of income was a Centrelink benefit or who were eligible for the Low Income Health Care Card. The demographic mix of survey participants is set out in Appendix 1.

The survey asked a range of questions about respondents' use of telecommunications, the costs of connecting and remaining connected, and about the Centrelink Telephone Allowance. The general telecommunications use and affordability questions cover similar ground to many other studies, although these studies tend to either focus on low

income quintiles (which is not particularly nuanced), or alternatively on the clients of welfare organisations (who are probably doing it tougher than others on a similar income). Our survey focuses between these two poles and gives specific data relating to those on Centrelink benefits. While much of this data reflects the trends in previous studies (which confirms the representativeness of the sample group in the survey), there are some useful distinctions to be drawn between different income support recipients. Further, this is one of the only studies to ask about the CTA.

It should be noted that prior to the 2016 Federal Election, ACCAN and SACOSS jointly released a high level briefing on the preliminary data from this survey. The purpose then was simply to highlight the shortcomings of the CTA, and in the election context, to call for a commitment from all candidates and parties to review and update it (Musolino & Ogle, 2016). This current report now provides further data and analysis and makes a number of recommendations for how the CTA could be updated to more effectively assist low income Australians to afford telecommunications.

## Focus Groups

The focus groups, which were conducted in Adelaide by SACOSS staff in June and July 2016, examined low income consumers' experiences of telecommunications services and products. There were four 90-minute focus groups with consumers recruited through the South Australian Financial Counsellors Association, Uniting Care Wesley Bowden, the Anti-Poverty Network, and the Youth Affairs Council of SA.

In addition to the 27 people who participated in these four focus groups, five one-on-one interviews were conducted with the same script and questions. As there was no significant difference in the responses from the focus groups and interviews, in this report all are simply referred to as "focus groups participants". The participants included a range of ages and household types, with a high proportion (around 1/3) being from non-English speaking backgrounds. The participants were predominantly income support recipients, although some were employed on low incomes and one ran a small business alongside their tertiary study.

# 1. Essential telecommunications in the digital age

## Key Findings

- Access to telecommunications is essential for full economic and social participation, with many day to day tasks now being completed primarily or exclusively on a mobile phone.
- The low income consumers surveyed used the internet to look for employment (83%) or housing (71%), to access government services (68%), access other services (such as banking and medical)(61%) and completing education activities (59%).
- Government services are moving primarily online and the survey data confirmed this: 26% of respondents said they usually accessed government services by phone, and 68% online.
- Low income households have a range of internet-connected devices, although the number of devices per household is lower than the broader population. The number of devices varies depending on household composition and income support payment-type.
- Connectivity is essential, but not universal, with 9% of the population without a mobile phone and 15% not using the internet (and more for some groups in the survey).

## Essential Uses

Access to telecommunications services is essential for full economic and social participation in today's connected world, including communicating with family and friends, accessing services and information, entertainment, and engaging in education and employment activities (ACCAN, 2015). Where once many of these activities did not involve telecommunications, or if they did the fixed line telephone was the only, or most commonly used technology, today Australians increasingly complete these activities primarily or exclusively using a mobile telephone and/or the internet.

According to ACMA (2014) 95% of Australians use the internet for emailing, while 72% of Australians use the internet for connecting with friends and family. Further, the use of voice over internet protocol (VoIP) (for example through Skype, Viber or FaceTime)

continues to grow, and is expected to eventually largely replace the fixed line telephone with the full roll-out of the NBN (ACCC, 2016).

Yet the internet is much more than just another way for people to communicate. It is increasingly being used to complete life's essential activities. According to Australian Bureau of Statistics (ABS) data (2015) 73% of Australians use the internet for banking, 61% for purchasing goods or services, 44% for home based employment, and 59% for entertainment. In addition 73% of 15-17 year olds and 51% of 18-24 year olds use the internet for formal education activities.

The low income consumers in our survey had their own range of essential internet based activities, including looking for employment (83%), looking for housing (71%), accessing government services (68%), accessing other services (such as banking and medical)(61%) and completing education activities (59%).

Many of these essential activities are becoming digital by default, while some are already exclusively digital. As one commentator notes, in today's Australia "teachers assume their students have unrestricted access to the internet and set homework accordingly; businesses assume their customers are internet users and shape their offerings online; and governments shift resources to digital provision of information and opportunities to interact" (Ewing, 2016).

Indeed the Commonwealth Government's Digital Transformation Agenda seeks to ensure that "all new and redesigned government services... can be completed from start to finish online" (Minister for Communications, 2015). This emphasises that all government services will be designed to be digital by default, including Medicare, Centrelink, the Australian Tax Office and the National Disability Insurance Scheme. For income support recipients this is particularly significant given that, as one focus group participant put it:

"We cannot deal with Centrelink without internet in some form or another, or at least telephone. Job seeking nowadays you have to have MyGov and go through the things and, you know, you have to job seek on their particular websites ... You need the internet to fulfil your obligations, but how do you afford that without the money there to do it?"

The survey data confirmed this: 26% of respondents said they usually accessed government services by phone, and 68% online. Just 5% chose other methods (such as going to an office). Notably, for those using the internet to access these services, the vast majority used their own internet/phone (at their own cost) rather than a free public service such as a library (8%) or at a Centrelink office (5%). And even such public supplied internet has costs in terms of transport, time and convenience – well captured by one focus group participant describing a friend who is a student without home internet:

“I have a friend who cannot study at home, so she’s in the library at fricking midnight sometimes just so that she can get access to the internet, like it’s ridiculous, it’s too expensive, it’s way out of reach for her to even consider getting internet. ... but she’s expected to do everything for uni online. It’s ridiculous.”

With further waves of technological advancement and the full roll out of the NBN, the digitalisation of our lives is likely to accelerate over the coming years, thus deepening the need to be online. Highlighting this trend, Saunders and Wong (2012), in their landmark study of deprivation indicators, found that by comparison with 2006 fewer Australians now believe that access to a public telephone and a home (fixed line) telephone are essential, while there has been a corresponding increase in the belief that a home computer, a mobile phone and access to the internet are essential.

## **Devices, devices, devices**

With mobile phones and the internet increasingly embedded in our daily lives, and with technology and capabilities rapidly advancing every year, the number of telecommunications devices commonly used is mushrooming (Walton, Kop, Spriggs, & Fitzgerald, 2013). In the analogue age, the home phone was the be-all and end-all of personal telecommunications. A house might have had more than one, but they generally had only one function and stayed at home. But in recent years the mobile phone has taken over as the main form of voice communication and there is now almost three times the number of mobiles to fixed line voice services (ACCC, 2016) .

While many households still have both fixed line and mobile telephones, significantly there are now 4.9 million Australians who are ‘mobile only’, an increase of more than 33 per cent since June 2013 (RTIRC, 2015). Notably, among the ‘mobile only’ population are a number of vulnerable and disadvantaged groups for whom choices are more limited, including the young (ACCC, 2016), the homeless (Humphry, 2014), the low income (Wise, 2013) and people living in regional and remote areas, including Aboriginal and Torres Strait Islander communities (RTIRC, 2015).

However, the technological changes have not stopped at the mobile phone. The type, number and range of telecommunications devices is now extensive with households commonly having a landline (handset), a mobile phone for each person, as well as personal computer(s) and tablet(s). Further, many household appliances and utilities are becoming ‘smart’ (connected to the internet), including TVs, games consoles, fridges, washing machines and cars.

The ABS data (2015) shows that the mean number of devices used per household to access the internet is 5.8, with households with children under 15 having 7.3 devices. This pattern of households with children having a higher number of devices was also reflected among the low income consumers in our survey. However, as evident in

Table 1 below, the actual number of devices in respondents' households was generally lower than the broader population.

**Table 1: Internet-connected devices per household, by household structure**

Household Structure	Mean number of devices
One person household	3.1
Live in a mixed adult household	3.9
Live with partner, no children	4.5
Single parent living with children	5.0
Couple with children	5.8
Respondent living with parents	7.9

(Source: Mint Research, 2016)

Table 2 below, which is disaggregated by income support payment type, tells a similar story with all mean figures below the national averages for all households, of 5.8. There is also a noticeable difference in Age Pensioner household. The underlying survey data suggested that Age Pensioners were as likely to have a desktop computer as any other household, but less likely to have a laptop/tablet, smart phone, TV or other connected devices. Add this to the phone data which showed Age Pensioners were more likely to have a landline and a mobile with no data than any other group, and we see Age Pensioners have a very different relationship to telecommunications and the digital world than other low income households.

**Table 2: Internet-connected devices per household, by payment type**

Payment type	Mean number of devices
Age Pension	2.7
Disability Support Pension	4.3
Newstart Allowance	4.4
Parenting Payment	5.1
Low Income Health Care Card	5.1
Carer Allowance/Carer Payment	5.5
Youth Allowance	7.3

(Source: Mint Research, 2016)

For much of the rest of the population though, the rapid increase in devices across society has been driven by (and in turn facilitated by) the increasing number and integration of telecommunication platforms, which has itself driven new telecommunications expenditures on ever smarter devices. While many devices at first glance may not seem essential, as they become embedded in daily life, they in turn change the way people live, quickly becoming essential to this new way of life.

## **One size does not fit all**

To meet these new telecommunication needs there is a range of different services available on the market. For example, for voice communications people may use a fixed line 'copper' connection, a 3G or 4G mobile connection and/or a mobile or fixed line broadband connection. For data people may use mobile or wireless broadband, fixed line ADSL, naked DSL or dial up broadband, satellite, fibre broadband through the pay TV cable network, or satellite or fibre broadband through the NBN. As the types of telecommunications services, devices and capabilities grow, Australians are commonly using a combination of services and devices to meet their needs. It was notable that even among the low income consumers in our study, over half reported being connected via a landline, mobile phone and a separate internet connection.

This is not extravagance but rather fitting "horses for courses". For example, a smart mobile phone may be sufficient to contact friends and family and complete other essential life tasks on the go, such as checking bank balances, viewing public transport timetables or checking work email. However, the small size of the screen and the cost of mobile broadband means that it may not be sufficient or practical to complete more data 'hungry' or complex tasks, such as completing school work or university assignments, applying for jobs or watching a movie with family and friends (ACCC, 2016). This was confirmed by a focus group participant:

"[my mobile phone] it's compact, it's transportable, it's multifunctional... [but] as I study and I'm a parent, and I've got a vision issue... I often switch between devices if I need like a bigger screen to work with".

Similarly, while a single person or couple may only require one mobile phone each and one fixed line home connection to a desktop computer, a family may need a number of Wi-Fi enabled devices connected to the fixed line home broadband with enough data and speed for all members of the household to complete all their tasks at the same time. Again, this is true even for those on low incomes, as focus group participants explained:

"[I have an unlimited plan] because we use a lot, well, actually, at one stage when the three of us were all studying, when my daughter was at home, we used a lot."

“I’ve got teenagers: I have no option but to have the internet.”

As needs vary between people of different ages, geographic locations, living and working arrangements, family types and so on, the combination of telecommunications services and devices people use to meet their social and economic needs can vary greatly. As such, there is no longer a one size fits all model of essential telecommunications services.

## **Essential, but not yet universal**

While mobile phones and the internet are the essential telecommunications tools of the digital age, their usage is not universal. ACMA (Older Australians resist cutting the cord, 2014) data found that 93% of people use a mobile phone, while in our survey of low income consumers 61% of respondents said that they had a mobile phone with data, and 30% had a phone with no data. In relation to the internet, the ABS (2015) found that approximately 15% of Australian households do not use the internet, while our survey suggested higher usage with only 8% of respondents not having internet access at home. However the figure was 21% among respondents surveyed by telephone, suggesting a sampling bias and the likelihood that internet disconnection is more widespread among low income households than in our survey sample.

Given the discussion above about how essential telecommunications now are, the goal would presumably be 100% access and use, but such universality is being held back by three key barriers: lack of availability, a lack of literacy, and a lack of affordability (ACCAN, 2015). These barriers impact different individuals and demographic groups to different degrees, but generally the availability barrier is strongest for people who live in rural, remote or other geographically hard to reach locations, the literacy barrier is strongest for older people, migrants and the most socially and economically excluded, and the affordability barrier is strongest for people on low incomes.

In the context of this report on affordability, it is clear from the above that the broad societal shifts to mobile and digital technology are just as significant for those on low incomes as for the rest of the population. Whether those on low incomes can afford to pay for the services that go with those shifts, or whether getting and maintaining those services is causing financial pressure and hardship, are key questions addressed in the following section.

## 2. Telecommunications (un)affordability for low income consumers

### Key Findings

- Telecommunications expenditure is significant and regressive, and 66% of low income consumers in our survey rated telecommunications among the five most important factors in their household budget.
- 62% of respondents reported experiencing either difficulty paying, having to cut back, or having to stop using one or more telecommunications services for financial reasons in the last 12 months.
- Ongoing bills cause significantly more problems for affordability than upfront connection costs.
- Survey respondents on Newstart, Youth Allowance and Parenting Payment were more likely to have telecommunications affordability problems than those on other Centrelink payments.
- Those with dependent children were also likely to experience more financial difficulty with telecommunications than others in the survey.
- Decisions to cut-back or stop using telecommunications was not technologically neutral, with mobile phones to most likely have use limited, and landlines most likely to be stopped altogether.
- The digital divide causes hardship to those going without communications, can compound poverty and other vulnerability, and also imposes significant costs on government and the wider community.

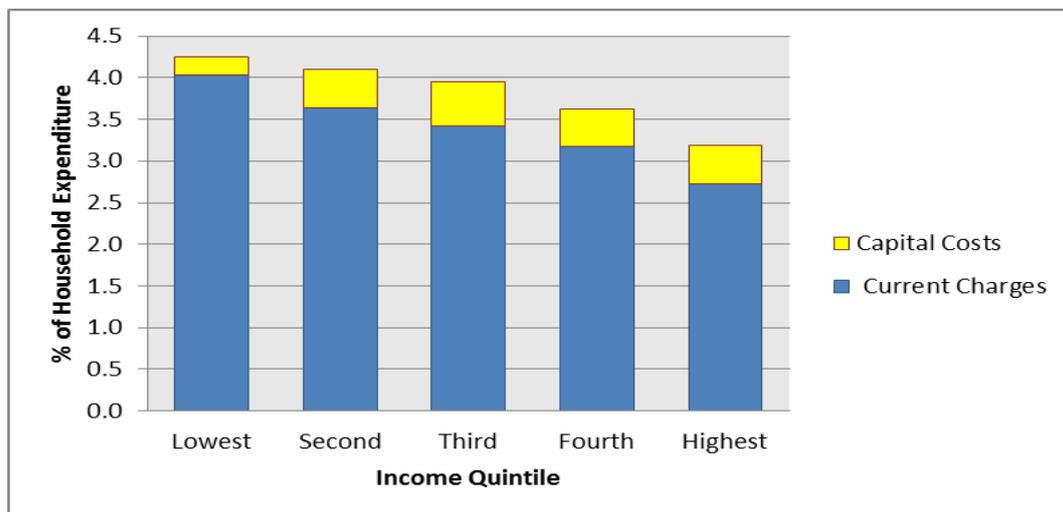
### A significant and regressive expenditure

In Australia today, telecommunications make up a significant component of household expenditure. Using ABS data from the 2009/10 Household Expenditure Survey, SACOSS (2015) has previously estimated that telecommunications accounted for 3.6% of average household expenditure. At the time this was more than the weekly budget expenditure on domestic fuel and power (i.e. electricity and gas), although these

figures are dated with energy prices and telecommunications usage both skyrocketing since then.

Telecommunications expenditure is not only significant in the household budget, it is also regressive in that it impacts proportionately more on low income households, as evident in Figure 1.

**Figure 1: Telecommunication expenditure by income quintile**



Source: (SACOSS, 2015)

It is also important to note that while telecommunications prices have generally declined in Australia in recent years, compared to international prices, Australia's are still relatively high (Swinburne Institute for Social Research, Centre for Social Impact, Telstra Corporation Ltd, 2015). It is not surprising then that 66% of low income consumers in our survey rated telecommunication costs in the top five most important factors in their day to day household budgets.

However, the fact that a household expenditure is significant (and even regressive) does not in itself make that item unaffordable. A good or service is generally considered affordable if a consumer is able to purchase it at a level considered to be the 'social norm' without suffering financial difficulty or sacrificing spending on other essential items (Pavlidis & Hawkins, 2015; Ofcom, 2014). Yet the reality of living on a low income puts people at greater risk of struggling to afford a range of essential items, and telecommunications are no exception.

## **Disconnected and struggling**

At the extreme end, a minority of low income Australians are disconnected completely from the internet because of cost. ABS data (2015) shows that between a quarter and a third of low income households do not have internet access at home, with 17% of these disconnected because of cost.

Our survey added to this data by asking about barriers to getting extra internet services (ie. platforms, not applications) in addition to the platforms and services respondents already had: of the 47% who wanted additional services 16% cited upfront costs as the barrier and 18% cited ongoing costs. While these numbers (around 8% of the survey sample) are small, they may be significant in relation to the discussion (later) of a small but deeply entrenched group on the wrong side of the digital divide.

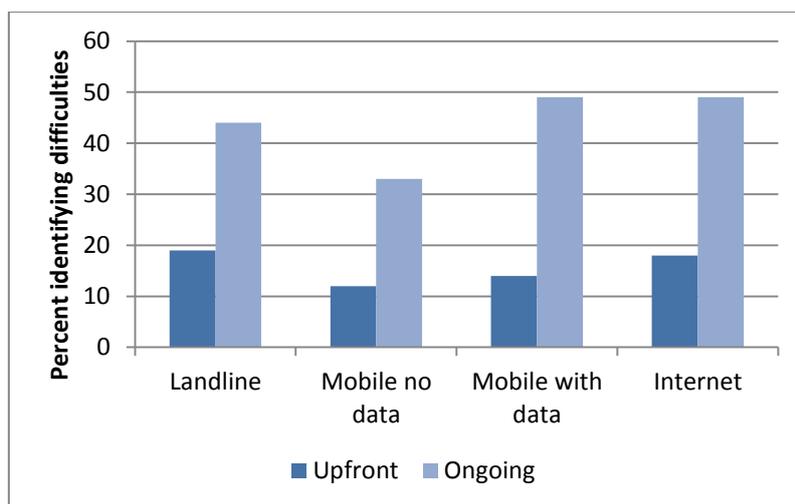
In general though (possibly due to our online sampling bias) the level of disconnection suggested by the ABS data is higher than among our survey respondents, for whom the more common experience is to be connected to a mobile phone and internet service, but struggling to pay bills. 62% of respondents reported experiencing either difficulty paying, having to cut back, or having to stop using one or more telecommunications services for financial reasons in the last 12 months.

This echoed earlier findings from Anglicare Victoria's Hardship Survey (2013) which found that half of their low income respondents had difficulty paying a telecommunication bill in the past 12 months because of financial hardship.

It was notable in our survey though that the primary hardship was with the ongoing costs of telecommunications, not the initial set up costs. The upfront costs of phone connections for the majority of survey respondents across all phone types was less than \$100, with average upfront cost of internet connection slightly higher.

While these costs clearly represent significant imposition on those households having difficulty, as Figure 2 shows, the numbers of households having difficulty with upfront costs are dwarfed by the numbers having trouble with the ongoing bills. For this reason, most of the discussion of affordability in this report will focus on ongoing costs.

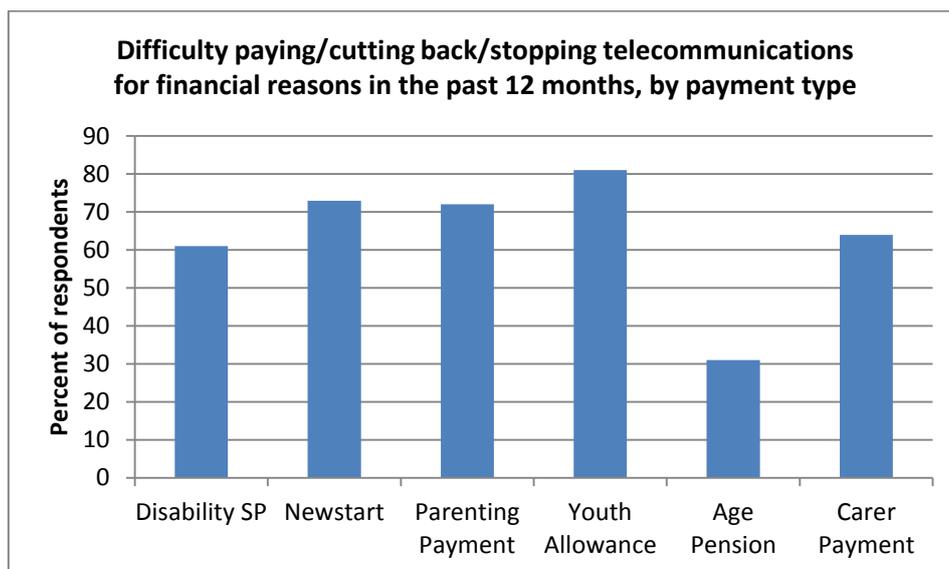
**Figure 2: Difficulty in paying upfront and ongoing telecommunication costs**



(Source: Mint Research, 2016)

Significantly, the survey data showed that the affordability struggle is more intense for some low income consumers than others. As evident in Figure 3 below, those on Newstart and Youth Allowance are most likely to be having difficulty paying, be cutting back or stopping their telecommunications services, while those receiving the Age Pension have the fewest problems. These findings are unsurprising given the latest ACOSS *Poverty in Australia* (2014) report shows that 55% of people relying on Newstart and 50.6% of those on Youth Allowance are living in poverty, and that the maximum rate of many social security payments is below the poverty line.

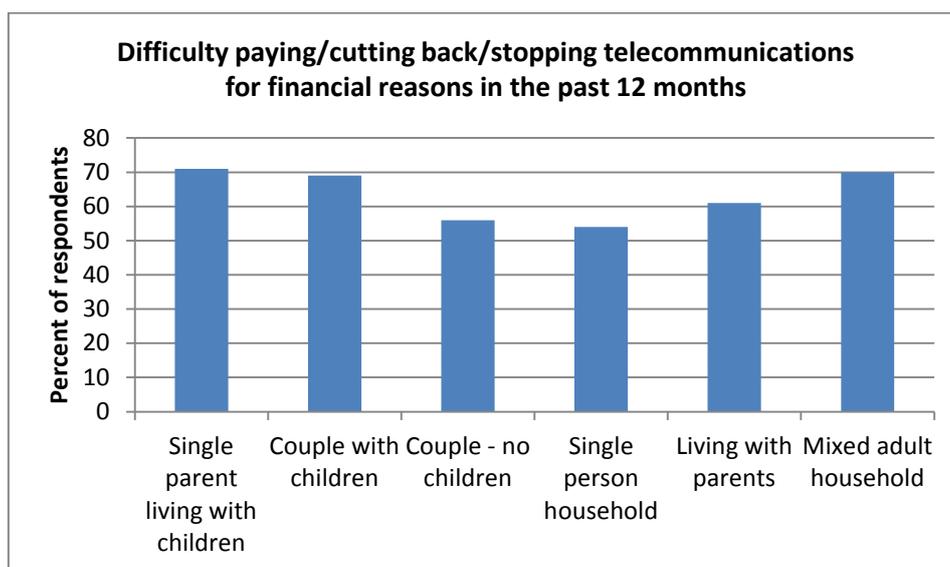
**Figure 3: Affordability, by payment type**



(Source: Mint Research, 2016)

The survey also found that low income families with dependent children are experiencing higher rates of financial difficulty to those without children, as is evident in Figure 4. The exception here is the mixed adult household category, probably due to a bias toward students and very low income earners in those households.

Figure 4: Affordability, by household structure type



(Source: Mint Research, 2016)

It is also unsurprising that families with dependent children are experiencing higher rates of financial difficulty, given that these households generally have more devices. In today's mobile and digital age children usually possess a personal mobile phone, and as noted earlier, are expected to have an internet connected personal computer/tablet for school and to engage socially with their friends. But this comes at a cost to affordability, as a focus group participant noted:

“she has a big family. And she has, all have children, they are students in high school like that. And children, they need internet. And really cost her a lot. And then she has high bills. Electricity, gas, water. And then plus the internet, like the mobile is cost her a lot....The children, they need internet and the adults they need a phone, small. And then they cost her a lot.”<sup>1</sup>

## Restricting usage

To manage this financial difficulty and remain connected to their essential telecommunications services, many low income Australians are forced to restrict their usage of telecommunication. One common method is to limit the number of telecommunications services that they are connected to. Morsillo (2012) found that unlike most Australians who are connected to multiple services and devices, “for a person on a low income, the decision is not so much "and/add" but "either/or" in terms

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<sup>1</sup> Translated for participant by an interpreter in attendance at the focus group session

of devices and services”. Anglicare (2013) found that 45% of their clients had only one telecommunications device, typically a pre-paid mobile phone.

This highlights that the “either/or” choice may not be technologically neutral. Our survey found that financial pressures had caused 10% of respondents to stop using a landline in the last 12 months (the highest rate of stoppage of any important household expense). By comparison, only 3% of respondents stopped using mobile phones or the internet for financial reasons in the same period, although they were more likely to cut back on them. Around half of respondents said that they usually, always or sometimes limit their use of a mobile phone, while just under half limited their use of a landline phone (43%) and the internet (41%).

While on the surface this cutting back might seem like a harmless and obvious coping strategy for low income consumers to manage their financial pressures, as noted in the previous discussion, in limiting their usage they also risk not being able to do essential activities like look for work, study and access Centrelink – all of which have long term economic consequences for those already struggling.

There may also be short-term costs. For instance, a common reason given by focus group participants for choosing a pre-paid plan is that it allows them greater control and flexibility over their spend on telecommunications. However, as we shall see in Section 4 of this report, such plans often have poverty premiums embedded through higher unit costs and hidden charges, and participants who relied on a pre-paid mobile phone also reported going for periods of time without the use of their phone when they ran out of credit and could not afford to top up.

For people reliant on income support, the impacts of going without phone and internet access can be particularly severe. As focus group participants pointed out:

“if I don’t have credit to [report my income to Centrelink], then I’m really screwed...I don’t get paid if I don’t report”.

“[I] pretty much go without a phone for a month....It makes it extremely difficult. I have to either borrow friends’ phones to make phone calls for jobs”.

Faced with acute financial pressures and costs in either having or not having telecommunications, many low income Australians are finding themselves caught between a rock and a hard place. They are either forced to cut back on other essential items (such as food, energy or social activities) or risk falling into debt and deepening their financial hardship to continue to use their telecommunications. As focus group participants noted:

“it’s a choice that I’ve made in my overall budget-wise that okay, this is important to us, we need this so I’m going to do this. And even if it’s at the

expense of whatever, then bad luck. This is what we need, so it's just a matter of prioritising it and [being] stuck in the mud, basically”

“Well something has to go. I get mine [bill] monthly, but something has to give, reduce your food supply or you cut out some social activities, whatever, because you can't afford to do both.”

Finally, it should be noted that the costs of cutting back or limiting telecommunications are not simply financial. Following from the essential role of telecommunications in so many areas of life, Walton (2013) has noted telecommunication technology:

“now lies at the heart of most of the activities which are seen to constitute 'social inclusion' - from playing an active role in one's neighbourhood and community to maintaining one's personal finances. The inclusive role of ICT has recently been reinforced by the digital migration of most government and public services.”

## **Affordability and the Digital Divide**

The reduced ability of low income Australians to afford telecommunications is contributing to the digital divide between those Australians that have access to the internet and can afford to use it unrestrictedly to meet their needs, and those that haven't got it or can only afford to use it sparingly. However, given the economic and social importance of digital access and the fact that digital exclusion is more likely to be experienced by people who are already disadvantaged, the effects are likely to compound and further entrench poverty, exclusion and disadvantage.

In a world in which we are told by government (Turnbull, 2015) and industry (Deloitte, 2015) that the jobs of the future are likely to be higher skilled and require strong digital literacy, access and experience, there is a real risk that those without will be left behind. And while there is evidence that in recent years more people are going online so that we may have fewer people on the wrong side of the digital divide, as technology advances further into life, the divide itself may get deeper. As Ewing noted in *The Conversation* (2016) “the kicker ... is that as more and more Australians are online, the disadvantage of being offline grows”.

The digital divide however is not just something that impacts the poor; it is something that impacts on all of us through lost social and economic gains (Morsillo, 2012; Walton, Kop, Spriggs, & Fitzgerald, 2013; Swinburne Institute for Social Research, Centre for Social Impact, Telstra Corporation Ltd, 2015). An Allen Consulting (2010) report estimated that a 10% increase in the number of Australian households connected to the internet would provide \$2.4 billion a year in household gains, largely through time-saving activities such as telecommuting, distance study, online savings and access to health services. Similarly, Deloitte (2015) has noted that if the number

of transactions currently taking place using non-digital methods were reduced by 20% in ten years' time, savings to government and citizens would amount to \$17.9 billion.

The potential social returns are also large. As Morsillo (2012) notes:

“[there is a large] potential social return on making the internet more affordable and accessible for all Australians, namely the improved social outcomes in health, education, employment and family relationships that may accrue from connecting a person on a low income to a stable broadband service....There is also the potential, of course, for Government services to be provided more efficiently thus offsetting the cost of such an intervention”.

It is clear that the digital divide is a major social justice challenge, but if tackled effectively could potentially reap great benefits for all Australians. Further, as argued above, affordability is one of the key challenges in addressing the digital divide, yet as Goggin (2014) has noted, “affordability is often invoked as an issue, but dedicated and comprehensive policies and targets and evaluation...have not eventuated”.

The next section of this report aims to fill some of this gap by examining the adequacy of the Centrelink Telephone Allowance, and the suitability of the telecommunication products available on the market for low income consumers.

# 3. The Centrelink Telephone Allowance

## Key Findings

- The Centrelink Telephone Allowance (CTA) has a complex eligibility criteria based on telecommunications being seen as an emergency function rather than an everyday essential service.
- The highest rates of CTA go to those on the higher level income support payments (pensions, carer payments), while those on the lowest payments receive the lower rate of CTA or none at all (Newstart, Parenting Payment, Youth Allowance). There is little justification for this targeting in telecommunications usage patterns.
- The data on whether, or to what extent, the CTA made a difference to telecommunications affordability was unclear because of poor targeting and differences in the base rate payments which impacted on the amount of money in the household budget generally.
- Less than half of the recipients of the CTA surveyed were satisfied with the CTA rate and an increase to \$60 per quarter was the lowest figure where the majority of survey respondents believed that it would make a difference to affordability.
- A majority of survey respondents would prefer CTA to be paid fortnightly or monthly, rather than the quarterly as is currently the case with the stand-alone CTA.
- The telecommunications affordability survey data and any subsequent call to expand the CTA to all Centrelink recipients raises questions of the adequacy of income support payments and how the CTA fits into the broader social security system.

## Rates and Eligibility

The primary government support available to address telecommunications affordability for low income earners is the Centrelink Telephone Allowance (CTA). It is a concession paid to certain Centrelink income support recipients to help with the costs of maintaining a telephone, and for some recipients, a home internet service. The CTA was first introduced in 1992 before the internet was widely used and according to the Centrelink Guide to Australian Government Payments is provided to assist recipients

“with the cost of maintaining a telephone service—it is not paid to assist with the cost of telephone calls” (Centrelink, 2016).

The CTA is paid at two rates:

- Basic rate of \$28.20/quarter for eligible recipients with a telephone connection (fixed or mobile)
- Higher rate of \$42.00/quarter for eligible recipients with a home internet service connected, such as a dial up service, broadband service or an internet connection via mobile phone connection (fixed or mobile).

Eligibility for the CTA is dependent on a complex range of factors including the type of base payment received and the length of time in receipt, the age of the recipient, capacity to work, and whether the recipient has dependent children. The full, labyrinthine eligibility criteria are set out in Appendix 2, but as best as we can summarise an impenetrable system, there are three basic possibilities for any Centrelink recipient as follows:

1. The base rate CTA is paid directly as a stand-alone allowance. This is paid for a range of Centrelink payments where the recipient is usually over 60, is a single parent, has dependents, or a limited capacity to work.
2. The CTA (higher rate) is incorporated into the Pension Supplement which is paid fortnightly to Aged and most Disability Support Pensioners (DSP), and to selected other payment recipients.
3. There is no CTA payable. This is usually where the Centrelink recipient is under 60, has no dependents and has a full capacity to work.

There are however various exceptions and quirks. Those on DSP who are under 21 and have no children do not receive the Pension Supplement, but receive the stand-alone CTA payment (but at the higher rate if they have internet). Conversely, those on Parenting Payment – Single receive a reduced Pension Supplement, but also the basic CTA (Centrelink, 2016).

While there may be historical reasons for why such a system developed, as SACOSS has previously observed, there is an underlying notion

“that telecommunications are only essential where there are children or someone with disability – basically a view of emergency rather than essential services. This not only excludes some of the poorest in our community who might need phone and internet services (for instance, for job seeking or other support services) ... this ‘emergency service’ model fails to understand or address the increased importance of telecommunications to all aspects of life in a modern society.” (SACOSS, 2015).

This is a problematic foundation for the CTA, but the opaqueness of the eligibility criteria, plus the fact that the payment is either a relatively small sum paid quarterly or is rolled into the Pension Supplement, also contributes to a lack of awareness among Centrelink recipients (and others) about the CTA. Half of survey respondents who we believe, based on the eligibility criteria, should have been receiving the CTA were not aware whether they were or not, while 20% of those who we believe were ineligible thought they were receiving the stand-alone payment.

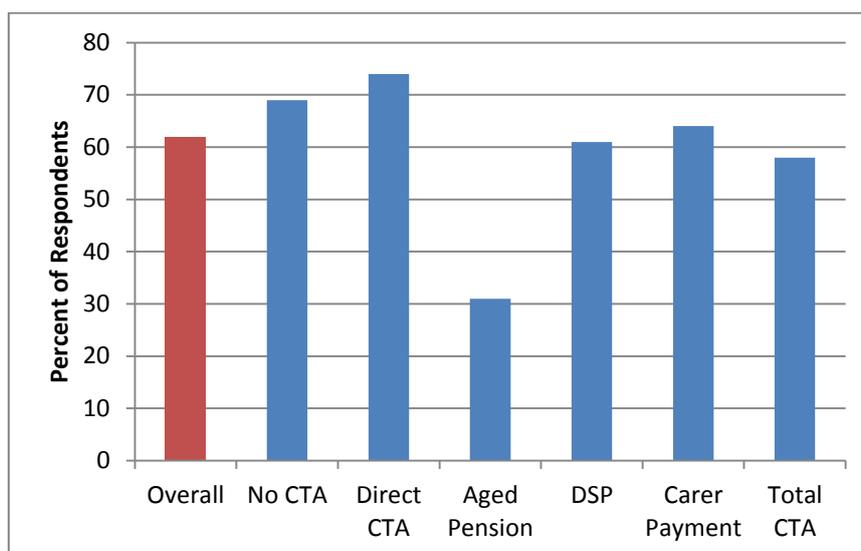
This level of awareness may say something about the adequacy of the CTA, but it may also be particularly important in the case of eligibility for the stand-alone payment, because while it is paid automatically, to qualify recipients need to inform Centrelink that they have a phone. If they are not aware of the allowance, some recipients who are eligible may be missing out.

The complexity and lack of clarity around who is and is not entitled to or actually receiving the CTA makes it difficult to interpret some of the survey data in relation to the allowance. However some broad observations can be made, in relation to the targeting and adequacy of the CTA, and the timing and nature of the payments.

## **Targeting**

As noted earlier, 62% of survey respondents reported experiencing either difficulty paying, having to cut back, or having to stop using one or more telecommunications services for financial reasons in the last 12 months. Figure 5 disaggregates that figure according to our calculations of which recipients were entitled to receive the CTA. The stand-alone CTA is shown separately to those receiving the Pension Supplement (as there are marked differences within that category), but all CTA recipients are combined in the last column.

**Figure 5: Affordability, by payment type and CTA eligibility**



(Source: Mint Research, 2016)

Clearly, looking at the second and the last columns, proportionately fewer recipients of the CTA were having affordability issues than those who were not receiving the CTA. However, with the exception of Aged Pensioners, more than half of respondents in every group reported having difficulty paying or cutting back or stopping services.

The other stand-out observation from Figure 5 is that more people among those receiving the stand-alone CTA had affordability challenges than any other group – including those not receiving the CTA.

These results would appear hopelessly confused, or suggest the CTA was having little or contradictory impacts on affordability, but the situation is clarified somewhat by putting the CTA into the context of the broader payments received by Centrelink recipients.

The broader payments context is important because, with one exception, the CTA is more widely available – and at a higher rate – for those who are already on the highest income support payments. The exception is those on the Low-Income Health Card who presumably have higher incomes (otherwise they would be entitled to other payments), but who are not entitled to the CTA.

However, for those on direct payments, as Table 3 shows, the CTA eligibility and rate tends to favour those on the higher base payments.

**Table 3: Selected Centrelink base payments**

Payment type	Fortnightly Payment	CTA Eligibility	CTA Level
Age Pension Disability Support Pension Carer Payment	\$795	Yes	Higher rate
Parenting Payment - Single	\$737	Yes	Basic rate (+ Supp)
Newstart Allowance – Single parent, principal child carer	\$571	Yes	Basic Rate
Youth Allowance – Single parent, principal child carer	\$568	Yes	Basic Rate
Newstart – Single, under 60, no children, full capacity to work or study	\$528	No	-
Parenting Payment - Partnered	\$476	Limited	Basic Rate
Youth Allowance – single, away from home and full capacity to work/study	\$433	No	-

Source: (Centrelink, 2016)

There seems little justification for this allocation in telecommunications usage patterns. As noted earlier, Aged Pensioners and those on DSP had the fewest devices per household. Further, as Table 4 below shows, a higher proportion of the three payment type recipients who universally attract the CTA (and at the highest rate) spend less than \$60 per month on landlines, mobiles and the internet (when they have them) than the other categories of income support recipients who may not receive the CTA or only receive it at the lower rate. Finally, those on Youth Allowance, which has the lowest base rate and the most limited access to CTA, have the highest rates of people spending more than \$60 per month on telecommunications (the inverse of the right-hand column).

**Table 4: Telecommunication costs, by payment type**

Ongoing Telecommunication Cost	% spending less than \$60 per month					
	Age Pension	DSP	Carer	Parent Paymt	New-start	Youth Allow
Landline	55	65	53	52	51	41
Mobile phone with data	63	73	69	61	59	58
Internet Connection	49	42	34	43	43	30

(Source: Mint Research, 2016)

The only way that the targeting of the CTA seems to reflect use or hardship patterns is that it is available for those (single parents) with dependent children – and as we have seen, children are a key factor in leading to more telecommunication use and hardship. This, in combination with the lower income support rates, probably explains the high level of direct CTA recipients in hardship in Figure 5.

Overall though, it seems odd that the groups of income support recipients that tend to struggle least with telecommunications costs are eligible for the highest rate of CTA (on top of already higher base payments), while those on lower base rates are less likely to be eligible and then only at the lower rate. This does not speak to a well-targeted allowance. At the same time, the overall high levels of struggle with telecommunications costs in all categories suggests that the CTA is inadequate, with even the 31% of pensioners struggling or cutting back being too high.

## Adequacy

As noted earlier, there was limited awareness of the existence of and eligibility for the CTA among the survey respondents. Given that around two-thirds of respondents were probably receiving it suggests that it is not making a big contribution to either telecommunication costs or the household budget.

Less than half of the recipients of the CTA surveyed were satisfied with the rate that they receive. Unsurprisingly the satisfaction rate differed based on the rate received with only 30% of those receiving the stand-alone CTA being satisfied with the rate, compared to 46% of Pension Supplement recipients.

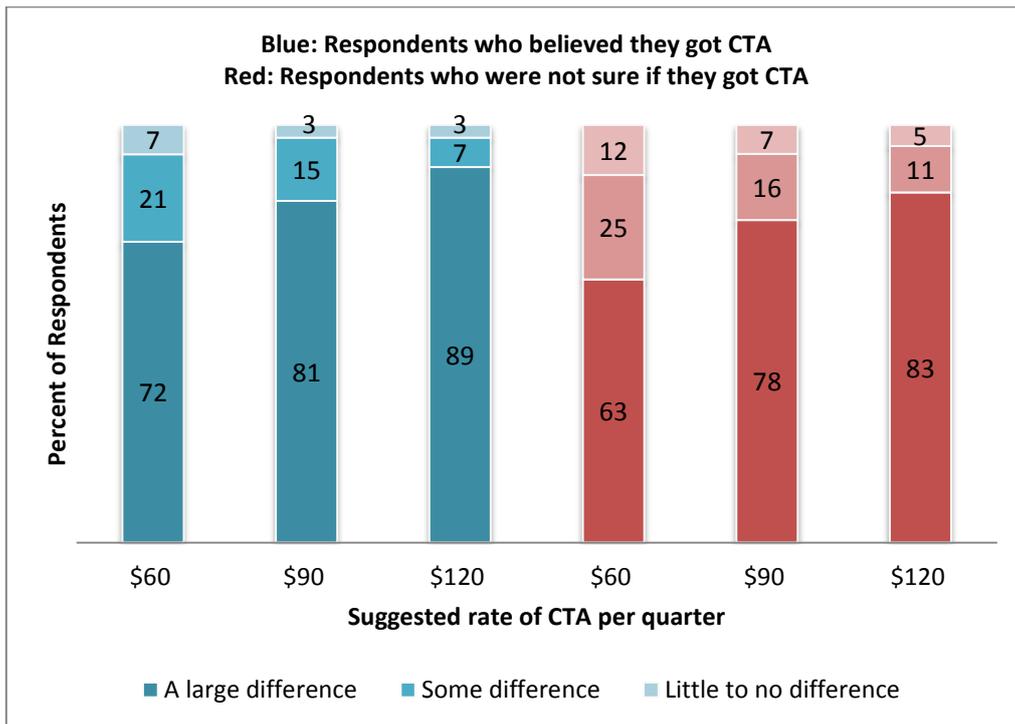
It is also telling that of those unaware if they are receiving the CTA, nearly one-third thought the existing rate would make little or no difference (21% said the same of the higher rate), with 40% saying the existing stand-alone rate would make “some difference”.

The general view of the inadequacy of the CTA was echoed in the focus groups with one participant saying:

“[the] telephone allowance is absolutely appalling, \$27 every 3 months, and doesn’t even cover 1 month’s...telephone or internet, especially with job seekers who have to be applying for jobs online”.

Respondents were also asked whether they thought particular hypothetical CTA rate increases would make a financial difference. The results are in Figure 6, divided by those who believed that they were receiving CTA and those who did not know.

**Figure 6: Responses to hypothetical increases in CTA**



(Source: Mint Research, 2016)

Those who believed that they were receiving CTA were more optimistic about the difference an increase in the CTA would make, but in both cases a majority thought a rate of \$60 would make a significant financial difference. While the recognition of the difference an increased CTA would make obviously increased as the proposed rates got higher, \$60 per quarter was the lowest figure where the majority thought it would make a significant difference – the majority did not believe that the lower hypothetical figures suggested (being the existing rates) would make a significant difference. This level would be an approximate doubling of the existing stand-alone allowance, and a 50% increase on the higher rate.

It should be noted though that even at these increased amounts, the CTA would still only be a form of assistance and would not cover telecommunication costs for low-income earners. For example, the survey data suggests that between a third and a

half of respondents spend \$30-\$60 per month on each of landline, mobile with data, and internet (where they have them). If a household had only one of those connections, their expenditure would still be \$90 to \$180 per quarter – still 1.5 to 3 times the amount of the hypothetical \$60 CTA. Further, given that just over half of the survey respondents reported being connected to all three types of telecommunications, then for a significant proportion of low income consumers, even this hypothetical CTA rate is quickly put into perspective as a small concession – just 11% of the top range bill.

It is also important to note that these hypothetical responses do not distinguish between different groups (e.g. those with children), yet as we have seen, this should also be a crucial consideration in assessing the adequacy of the payment.

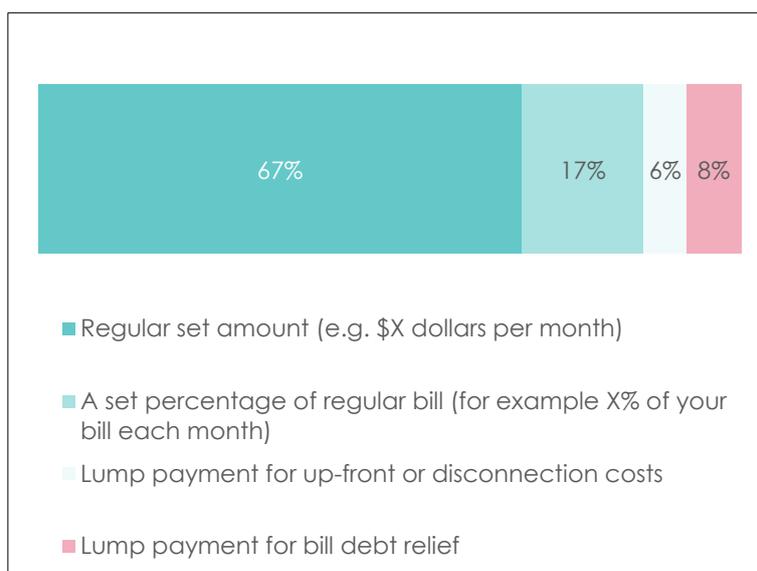
## **Form and Frequency**

The final area of possible reform of the CTA canvassed in the survey was around the form and frequency of payments.

As noted previously, the stand-alone CTA is paid quarterly, while the Pensions Supplement is paid fortnightly (although it can be paid quarterly). The quarterly CTA payment may reflect a largely by-gone era of landline billing, but given that most telecommunication bills are now monthly and base income support payments are fortnightly, it is not surprising that survey respondents overwhelmingly preferred the CTA to respond to one of these cycles: 36% of respondents preferred a fortnightly payment and 37% preferred a monthly payment. Only 10% preferred quarterly payments. Whichever of these payment cycles was chosen would be vastly preferable to the current arrangement for the stand-alone CTA.

It was also noteworthy that a large majority of survey respondents also preferred regular set payments rather than other alternatives, as evident in Figure 7.

**Figure 7: Preferred Type of Allowance**



(Source: Mint Research, 2016)

Given that the data cited in Section 2 showed that upfront costs were not seen as a big issue by most survey respondents (at least by comparison to ongoing costs), it may not be surprising that only 6% of respondents would prefer CTA as a lump sum assistance for dis/connection. That said, as we shall see in Section 4 of this report, the cost of disconnections and how that locks low income earners into long and inappropriate contracts was a major theme from the focus groups. Interestingly, this appears to be seen as a contract issue – not as a dis/connection cost issue requiring direct financial assistance.

The other interesting outcome evident in Figure 7 is that only 17% of respondents supported a percentage concession payment. SACOSS' experience in energy advocacy is that flat rate concession payments often fail to keep up with cost increases and do not reflect different household demand. Accordingly, in that sphere we are arguing for a percentage-based concession. Without evidence as to why or how a telecommunications concession payment would be different, or how it would keep up with changing costs of telecommunications over time, we would have some concerns about endorsing a flat rate model for the CTA, notwithstanding the survey results. However, given the other major problems with the CTA in terms of targeting and adequacy, that argument can probably wait.

## Summary

The data here raises, and confirms, serious issues with the current model of the CTA. The data clearly shows that telecommunications expenditure is essential, significant and regressive, and that it is causing hardship and/or leading to digital exclusion.

Given this, government support to maintain telecommunications connectivity is clearly needed. However, the concerns outlined above around the targeting, adequacy and the format and frequency of the CTA, clearly suggest a need for reform.

We noted at the beginning that the CTA was devised around a phone service and mainly for those with children or disability. However, what the data shows is that this targeting is flawed on both technology and social grounds. Technologically, it is clear from the survey data that people on low incomes are more likely to rely on mobile phones than landlines, but design of any telecommunications concession is difficult because one-size of telecommunications does not fit all.

Though at a minimum, if you were going to simply re-target the CTA to those most in need, but still keep it as a narrow “phone” allowance, it would be a payment to assist people to maintain a mobile phone and be structured around that. The current CTA notion of assisting with the cost of a service, but not of phone calls would have to change because the dividing line is less clear when service costs are embedded in mobile call costs (SACOSS, 2015). **A mobile-based CTA would have to have some reasonable call allowance and monthly payments.**

However, the internet is clearly also an essential telecommunications platform and, as will be seen in the next section, it was clear from the focus groups that data was one of the biggest issues for those on low incomes – they struggled to get enough at a reasonable price, and going over their limits left them open to unmanageable expenses. Thus, rather than an allowance based primarily on landline logic, **the technological starting point for a modern Telephone Allowance would be mobile based and include data.**

In terms of the social aspect of targeting, when the three categories (by payment type) of income support recipients that receive the highest level of CTA are having least trouble with telecommunications affordability (and are already on the highest payment types), while those on lower payments can’t access the CTA at all, or it is not seen as enough to make a difference to struggling households, then the system is clearly broken. That said, even among those on the Age Pension – who are on the highest income support payment and are least likely to be struggling with telecommunications affordability, some 31% still reported cutting back or having difficulties paying bills, so there should not be an argument for cutting that allowance. Rather than an argument about better targeting by taking from one group to give to another, **the argument must clearly be for expanding the overall eligibility for the CTA.**

In this context, a further question arises: if (as argued here) telecommunications is an essential service for all people, then is there a case for a universal allowance, not one targeted at particular groups of income support recipients? If everyone has (or should have) telecommunications expenses and this is an essential expenditure causing

hardship, then everyone should be entitled to assistance to access those essential services.<sup>2</sup>

However, this universalist argument raises the issue of whether a separate telecommunication allowance is needed, or whether there should just be an increase in the base rate of payments to ensure that they provide a genuinely liveable allowance covering all essential costs (which is not the case now). The broader data from this survey (SACOSS, 2016) was clear that those on most payment types are struggling to pay for a range of essential items, not just telecommunications, so the question is why (if it is a universal expenditure) would a separate payment be required for telecommunications and not for other universal expenses such as food.

One obvious answer to this question is to ensure that the funding does go to maintaining access to telecommunication and all the social and economic benefits of that, rather than being spent on something else and leaving the person still without adequate telecommunication access. However, *any* cash payment is capable of being diverted into other expenditure – whether it is an increase in a base rate payment or a stand-alone allowance like the CTA. There is, for instance, no guarantee that the money received under the current CTA goes to telephone costs. The only way to ensure a support goes to the purported purpose is to make it a non-cash payment – which is the logic of current income management welfare cards that limit expenditure options. However, even apart from the paternalistic assumptions and problematic economic sovereignty issues, such schemes are expensive to maintain and inconvenient to use. Indeed, the CTA was introduced in 1992 as a monetised allowance to replace the previous concession voucher system.

**All of this suggests that assistance with telecommunications costs would be best maintained as a cash allowance, albeit a more universal one.**

The main argument for stand-alone allowances rather than an increased base allowance is that in theory allowances can better target payments to different needs. In the case of telecommunications, these different needs are manifest particularly around children. As the survey data showed, households with children had the highest number of telecommunications devices and struggled the most with affordability, but it is important to note that this is different from a number of other essential household expenditures. For instance, the amount of rent paid or energy used does not go up proportionately to the number of people in the house (i.e. increasing a household from 1 to 2 people does not double the rent or electricity use/cost). Over a certain age

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<sup>2</sup> The case is different for other supplementary allowances such as the Commonwealth Rent Allowance, which is limited to those with particular significant expenses that others on the same income support payment don't have.

however, it will double the number of mobile phones required in the household, and potentially also double (or more) the data required.

Accordingly, if telecommunications are indeed a universal need, then that need relates not simply to the income support recipient, but the number of people that are funded from that payment. An allowance structure aimed at assisting access to telecommunications should have extra payments based on the number of children/dependants presumably over a certain “telecommunications” age – probably a low teen. In this sense, a universal approach does not imply a single rate for recipients, but rather a universal support for all telecommunications users.

The recognition of the need for differing payment rates based on the number of dependants does not resolve the argument around whether a stand-alone allowance is preferable to an increased base payment (as both can be adjusted for dependants), but to some extent that resolution may be time-based. The first step would be to expand the telecommunications allowance to recognise the universal support requirement and to fix the other structural and adequacy issues identified above; and then, when the universal eligibility is established, there could be a move to incorporating it into the base level payment. However, in doing this there would need to be an assurance that the value of the telephone allowance was maintained in the base level payment and that the allowance was not used to increase the base rate in lieu of a much-needed wider-reform to lift the basic allowances to a liveable level.

In this context, we note that ACOSS (Budget Priorities Statement, 2016-17, 2016) has called for an independent expert Commission to be appointed by the government to assess the needs of income support recipients and to recommend benchmarks for the adequacy of income support payment. If this was implemented, then telecommunications needs could be factored into such an assessment and arguably at that point the stand-alone allowance may be redundant.

## Recommendation 1: Reforming the Centrelink Telephone Allowance

Adopting the above approach would allow for two strategies in relation to the CTA. Firstly, in the context of the existing CTA, and considering both the technological and demographics of targeting, and the issues of adequacy and method of payment canvassed above, the proposal which comes out of the survey data (and the digital data issues identified in the focus groups) is that ***the CTA should:***

- ***aim to assist with access to mobile-phone communication and internet access with a reasonable call and data allowance;***
- ***be available to all Centrelink recipients;***
- ***have higher rates per child/dependant;***

- ***be increased to a base rate of at least \$60 per quarter (\$20/month);***
- ***be paid fortnightly or monthly.***

Secondly, in the longer term and in recognition of telecommunications as a significant and essential daily expenditure, and that (as per Table 3 above) part of the reason people on Centrelink benefits were having trouble affording telecommunications is insufficient base level income, ***there should be a review of the adequacy of income support payments, and the costs of telecommunications should be included in the consideration of essential household expenditures. If the costs of telecommunications are factored into setting genuinely liveable allowances, then there should be consideration of incorporating the CTA into the expanded base level payments.***

## 4. Products on the market

### Key Findings

- Those in the highest income bracket get approximately five times more internet value for money (amount of data per dollar spent) than those in the lowest income quintile.
- The need for data, and the lack of data allowances on the most affordable plans, is creating stress and excess costs for low income consumers with many focus group participants reporting regularly running out of data.
- Excess data costs and charges are a poverty premium which increase costs and decrease the value of telecommunications services.
- Demand for data is driven by broad social changes and expectations, but also by predatory marketing practices with “free” introductory offers that habituate consumers to higher data needs.
- Plan bundling and extra inclusions may increase value but not necessarily the affordability of plans.
- Being able to personally manage telecommunications usage and payments is crucial for low income households, and many problems that affect all consumers impact particularly on those on low incomes, including:
  - Less value for money in pre-paid plans
  - Excess data fees and expensive additional data
  - Payment via direct debit (often forced by service providers offering low budget plans) causing cash flow problems
  - 28 day billing cycles causing cash management problems
  - Lock-in contracts with high exit fees.
- Despite recent improvements, focus group participants identified a lack of transparency in sales and plans and difficulty in accessing hardship programs as problems for low income consumers.

### Introduction

The previous section examined the main government mechanism used to assist low income consumers with telecommunications affordability. However, by definition that is a limited and reactive approach as key issues of affordability are decided and driven by the structure of the telecommunications market and the products and services offered

in that market. This section draws on earlier SACOSS work on “poverty premiums” in telecommunications, and presents the results of the focus group discussions which highlighted the impact on low income consumers of some of these premiums. It also highlights a range of other market products and practices that make telecommunications unaffordable.

## Poverty Premiums

A poverty premium is an extra cost which accrues to someone on a low income precisely because of their poverty. These may be fees and charges that are most likely to apply to those on low incomes, or extra costs because their inability to pay denies them access to things which would save money. In relation to telecommunications, these premiums include:

- Regressive supply charges (either explicit or hidden in mobile phone plans) which impact more on those on low incomes and make reducing expenditure difficult;
- Higher unit costs for small expenditures (i.e. less value for money);
- Pre-paid plans (which are often the choice of those without regular income; housing, or credit-worthiness) having less value for money than post-paid plans;
- Fees and charges for late payments or other misdemeanours arising from poverty (SACOSS, 2015).

Some indication of the extent of these poverty premiums was evident in the assessment of the value of internet expenditure in the ADII (Thomas, et al., 2016). This was an assessment of the internet data allowance per dollar spent (and so did not include things like extra fees and charges). The Australian average ADII figure for the value of expenditure index in 2016 was 54.5. For the highest income quintile it was 63.8, but only 39.4 for the lowest income quintile (the higher the figure, the more GB obtained per \$ expenditure). But the indexes flatten out the orders of magnitude involved. Using the base data behind the ADII, we calculate that these index figures mean that on average *those in the highest income bracket were getting approximately five times more value for money (amount of data per dollar spent) than those in the lowest income quintile.*<sup>3</sup>

Interestingly though, with the exception of the issue of fees and charges, the focus groups did not highlight these poverty premium issues – in many instances the market structure was taken as given. However, many of the issues that were raised can be seen as either an outcome of these poverty premiums (e.g. data limits, lock-in

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<sup>3</sup> The rating of 39.4 equates to a value of 0.7GB per dollar, while an ADII score of 63.8 equates to approximately 3.4GB per dollar (using a straight proportion of 60-80 index range where value was 2.61-6.8GB per dollar).

contracts, direct debit billing problems), or the strategies low income consumers put in place to deal with poverty premiums (e.g. pre-paid plan costs).

## Drivers of Expenditure

### Mobile data demand

In line with national figures which show huge growth in data usage – for instance, an 8-fold increase in data downloaded from December 2009-2014 (SACOSS, 2015), one of the key drivers of telecommunications expenditure for the focus group participants was data. Relatedly, one of the most common problems identified was that mobile phone plans do not include enough data to meet their needs. Mobile data is generally more expensive than home internet, yet the modern lifestyles of the participants demanded mobile data for a range of activities:

“[ I use my mobile phone] for everything now, internet, photos, calendar, planner, Facebook, apply for jobs even, yeah, pretty much everything”

“Because I’m not at home very much... I need to be connected [to the internet] all the time”

“I use the internet on my phone constantly to run my business and stuff so I need it all the time”

For many participants, the amount of data was the key thing that influenced their choice of phone plan:

“Data. Data and price [most influenced my choice]. Like how much gigs do I get for the cheapest.”

“I had a quick look to see that they didn’t just have exorbitant costs per minute hidden... but yeah data...I knew I needed roughly, three or four gig, so I found the cheapest for that.”

“the reason I want my daughter’s plan is she uses a lot of data and it’s one of the few I’ve found with such a huge amount of data...”

Yet despite there being strong demand for mobile data, most mobile phone plans only include very small amounts of data, typically between 2-7GB among plans selected by focus groups participants. When considering that most participants with a home internet connection reported having at least 100GB and often much more, it is clear that mobile phone users only have a very small amount of data available to use and are limited in what they can do online on their mobile phone. As participants noted:

“I stay away from data heavy things on my phone because I’ve only got 3 gigs so I can go over quite easily so I deliberately will sort of put certain

work off until I'm at a proper connection and other stuff I'll do that on my phone because I don't need much data."

"So I'll often avoid doing certain things on my phone and wait until I get to a computer, which means I need to maintain a computer"

While these are sensible use-management strategies, they also suggest that expensive mobile data helps drive demand for secondary internet sources, which adds to total telecommunication costs. The majority of focus group participants did have access to a home internet connection, but as Humphry notes, this is not always the case for low income consumers (Humphry, 2014).

### **Mobile data – excess costs**

Due to the high demand for data and the low data caps for mobile phone plans, many participants reported regularly using up all their data before their allowance was due to replenish.

"5 gigs, that lasts me all of like 5 days. I love my interwebs, and that was horrible, horrible."

"The only thing that annoys me with my plan, because mine's free calls, free texts and that kind of thing, is that the data isn't enough. And I usually end up topping up and getting another gig, which costs me another \$10 at the end of the month."

In response to running out of data most participants either purchased additional data top ups or risked going over and paying excess usage fees. Very few participants who ran out of data could go without data for long periods of time, pointing to the essentiality of access to the internet at all times:

"[I] top up with data probably about a week before it's month's end. I'm trying really hard this month not to exceed my data, and I've only got 600 MB left, so that's probably not going to happen."

At \$10-15 per gigabyte, the cost of data top ups and excess usage fees are extremely high compared to the cost per unit of data included in the plan, and available through home internet connections. As participants noted:

"It is just data at the moment [that I have to pay extra for], it's killing me."

"To do a top up can be like a third of the cost of the original plan, and you don't even get the same amount of data you got with the original plan, like it's expensive to top up."

"Topping up, so like half of the data was still \$10 ... so every time I'd run out of data, I'd have to go and pay another \$10 and another \$10."

“I just have a very tight budget, \$15 extra for one gig of data is excessive.”

Many participants reported very quickly running up large extra fees and charges on top on their normal bill, while some participants also expressed dissatisfaction with plans that automatically top up an extra gigabyte of data as soon as the data allowance is exceeded, even if they did not go on to use all the extra data added:

“What happens with mobile data is you get charged another gigabyte even though... you can use tiny, tiny little bit of it and ...then you go over and then it’s another \$10....So they charge \$10 for tiny, tiny little data. That is also unfair.”

“They add 1GB, 3GB for you without telling you. And I asked them if they can block that one, they said no, they can’t block. If you overuse they would add, it’s automated”

An almost universal feeling was expressed in the focus groups that mobile phone providers are taking advantage of the growing demand for data, and there was resentment that the mobile phone plans that offer the higher amounts of data tend to come with catches such as 28 day billing cycles and forced direct debit billing arrangements. The problems with these arrangements will be discussed below, but it is interesting to note the comparison to home internet plans where participants were generally satisfied with the amount of data included, and were more concerned about internet speeds. But for mobiles, it was clear that if they could change one thing about their mobile phone plans, it would be access to more affordable data.

The *Telecommunication Consumer Protections Code* mandates consumer usage notifications and the provision of spend management tools (Communications Alliance, 2016), but these mainly deal with information provision.<sup>4</sup> However, no amount of information provision, shopping around or ritual chanting of “caveat emptor” can compensate for the fact the data allocations in many of the most affordable plans is simply too low for consumer needs in today’s society.

Furthermore, the data stress and the increased expenditure it drives is made worse by instances of predatory marketing and unnecessary bundling identified in the focus groups.

## Predatory Marketing

Predatory marketing here refers to plans and special offers that entice low income consumers to purchase plans that end up costing more in the long run. These special

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<sup>4</sup> Section 6.5.5 actually lists a range of spend management tools which are about more than information provision, but there is only an obligation to supply one of the list, so suppliers can default to the easy information provision option.

offers typically consist of unlimited free usage of data or certain social media sites for a set period of time at the start of a contract before returning to the normal charge for the remainder of the contract.

Participants who had purchased these plans for themselves or their family members noted that they ended up costing more in the long run through excess usage charges as they become habituated into using high amounts of data during the free period and then inadvertently continued to use high amounts after the free period had ended:

“my boyfriend, he bought a new plan and it gave him 3 months’ worth of internet of his plan for free. We ended up using over 70gig in a month.”

“[[I’ve] noticed, ever since they’ve taken [free] social media out, I’ve exceeded my data every month nearly, or have exceeded my data.”

“the reality is you will do absolutely everything and anything on your phone and then...you’ve just had 3 months of learning a new behaviour; [and] at the end of that 3 months, you now need to stop that new behaviour. And for some people they just can’t do it and will continue”.

The time limited nature of these special offers was not hidden from consumers when they purchased them, but it appears they did encourage increased usage. In the long run this proved to be more of a hindrance rather than a help for many vulnerable low income consumers seeking to reduce their telecommunications costs.

## Bundling and Unnecessary Costs

The other issue raised in the focus groups in relation to the drivers of increased demand was the bundling of services so that value was purchased and not used. While most focus group participants were either satisfied with the value included in their plans or wanted more, some older participants indicated that they rarely use all their included value:

“Well, I don’t actually use my phone that much so I feel like I’m paying a lot of money and not getting that much in return. So it would be neat if I could get a smaller plan based on how much I actually use the phone.”

These participants indicated that they felt it was unfair they had to pay for things they do not use, such as mobile phone data:

“I feel that more older people are ripped off... Because we don’t use data as much as we get, but we have to pay exactly the same as people who use 100% so I feel awful [about this].”

Focus group participants pointed out that unnecessary product purchases were not just limited to post-paid plans, but applied (in a different way) to the pre-paid plans which many had taken on to manage their expenditure. While the logic of the pre-paid plan is

that you pay and then use it until your credit expires, there is still potential for consumers paying for value they do not use because the credit usually has an expiry date:

“I had a \$30 prepaid and I think...it was three months...but I just found I wasn't actually even using that amount, so it was just a waste getting that.”

For low income consumers with tight budgets, having to pay for something they do not use is a waste of finite resources that they could be putting toward other essential items. As Pavlidis and Hawkins have noted (Pavlidis & Hawkins, 2015) “it is important to remember that not every consumer necessarily wants or needs more plan inclusions...As such, affordability needs to take into consideration the extent to which products and services provide value-for-money and choice for consumers, which suit consumers' varying requirements and circumstances.”

As one focus group participant noted:

“the actual cost of plans haven't in themselves come back that much. They're like, 'Okay, you can do it for free and unlimited now.' But it's like, 'Yeah, but you're not actually bringing down the cost of the plan.’”

### **A no-frills solution?**

The problems of bundling and unnecessary purchases lend themselves to a proposal for a no-frills product which just supplies phone access and a basic data allowance at a reasonable cost to low income consumers. There was some support for this in the focus groups:

“I just think if you're on a benefit, there should be at least a minimum basic thing for every company, or selected companies, that have to service everybody ... if you want to upgrade that, then you upgrade, but there should be a minimum.”

However, there is a risk with this strategy that as technology changes and rapidly finds new uses for available products, low income consumers will be left with a second-rate product. Further, the no-frills basics approach does not address the dominant theme from the focus groups of needing more data. There is really no getting around it: **if the dominant driver of telecommunications expenditure and excess charges is the need for more data on low cost plans, then what is needed is exactly that – low cost plans that provide adequate data at the same (cheaper) price per unit that applies in higher cost plans.** Anything else is simply entrenching a poverty premium.

### **Barriers to Managing Expenditure**

In the absence of more affordable plans and data in the marketplace, as we saw in Section 2, low income consumers seek to cut back and manage their usage. To this end, participants in the focus groups strongly indicated a preference for

telecommunications plans that give them greater control and certainty over how much they spend.

Interestingly the plan options that participants felt would best give them this control differed. Some participants felt that a pre-paid plan, where they only pay for what they use, would provide them with the greatest control over when and how much they spent. This choice was most common for mobile phones:

“pre-paid... is manageable, so if one month I don't have enough and I can't recharge it, I can still receive calls and texts for that week. And then, you know, I just start again when I need to. It's not like racking up...late fees for not being able to afford to pay it that week.”

“I'm terrified of ending up with a huge bill at the end of it without realising that I've racked up a bill, so I switched to prepaid. I don't have to worry about that.”

Other participants felt that unlimited postpaid plans, where they use as much voice, text and/or data as they want each month for a fixed price, would provide them the most certainty over how much they would have to pay for their telecommunications. This choice was more common for home internet, but a number of participants also chose mobile phone plans that have unlimited voice and text:

“when they came out with the unlimited [mobile phone] ones it just worked out a lot better because I spend quite a lot of time on the phone to family so with the unlimited plan I don't have to worry about, “Oh, I've only got so many minutes.” I can just talk as long as we want and not have to jump off the phone at any stage.”

“it's unlimited so I never get caught – if I need to ring Centrelink and I end up being on hold for an hour/hour-and-a-half.”

While the choice of plan type may have differed between participants, the motivations for choosing the particular plans were very similar. They were born of a strong fear of receiving a larger than expected bill for which they may have to sacrifice other essential items to pay. That said, while the motivations for choosing either pre or post-paid plans may be similar, they each have their own different risks and costs for low income consumers.

## Pre-paid plans

As indicated above, many low income consumers choose pre-paid mobile phone plans because those plans provide them with the greatest control over how much and when they pay for their telecommunications. Yet pre-paid plans often come with the catch that they include less call, text or data value per dollar spent than post-paid plans, as evident in Table 5 which compares the value in one leading company's plans.

**Table 5: Poverty premiums in pre-paid plans**

Monthly spend	Prepaid value of services	Value per \$1 spend	Monthly post-paid contract value	Value per \$1 spend
<b>\$19-20</b>	\$100	\$5	\$250	\$12.5
<b>\$29-30</b>	\$450	\$16	\$450	\$15
<b>\$49-50</b>	\$900	\$18	Unlimited	-
<b>\$79</b>	\$1,500	\$19	-	-
<b>\$99</b>	\$1,859	\$19	-	-

(Source: SACOSS, 2015)

The lowest plan figure is unusual here (making the \$20 post-paid highly expensive) but the difference in value at the mid and top-end represents a premium on poverty. However this is not just a question of fairness for low income consumers, it also has practical consequences in running out of credit. As some participants noted, all it can take to run out of credit is one or two long phone calls to Centrelink.

“I’ve got 10 minutes left on my credit. Answer the phone. Answer the phone... Ten minutes and Centrelink? You’re dreaming.”

“cause I had a problem at one stage and I was on my mobile [to Centrelink], and I said “Look I’m running out of, just, on my mobile I’m going to, it’s going to run out soon.” “Oh no, just wait for this and just do this” and it’s so yeah, it was frustrating.”

When credit runs out, low income consumers are forced to either go without using their phone until they can afford to top up again or sacrifice spending in other areas to top up immediately. This choice can be very stressful for low income consumers, particularly for those who are reliant on Centrelink benefits and are required to report or need to use their phone for job seeking, but also for those with other needs like staying in contact with children or elderly parents.

## Post-paid plans

While pre-paid plans are the most common choice for low income consumers, some prefer post-paid plans so that they do not have to worry about running out of credit and going without the use of their phone. Yet the lower cost post-paid plans that low income consumers can afford, often come with undesirable catches, such as less suitable billing arrangements (e.g. direct debit only or a 28 day ‘month’ billing cycle) and higher extra fees or charges. The impact of these product features on low income consumers will be outlined individually in more detail below. What is important to note

is that they are often unavoidable for low income consumers because the plans that do not include these features have higher monthly costs that low income consumers simply can't afford.

## Control in paying bills

The bill payment methods preferred by most participants also reflect the need for low income consumers to be able to have as much control as possible over their telecommunications bills. Most focus group participants choose (where given a choice) to pay their bill using either BPAY, a credit card, buying vouchers from retail outlets or by setting up their own automatic payments so that they (and not the service provider) retain control over when the money is debited. As participants noted:

"I just BPAY [my bills]. That's easy I feel like I've still got some control instead of just letting them take the money out."

"I would actually prefer to go and buy the slip thing and do it myself because...I like to save money where I can, and the banks annoy me with how they make you pay if you have over eight transactions a month or something."

Very few expressed a preference for direct debit, fearing, and in some cases experiencing, money being deducted from their bank account before they have funds available to pay their bill and then incurring extra fees and charges from their service provider or banks. As participants noted:

"I like to pay it [via bank transfer] because that way I'm in control of when I've got the money. I might not have the \$30 sitting in my bank account when they go to make that direct debit... and if I don't have it in there, well, some organisations will charge you a dishonour fee ... and then it starts racking up and then you end up paying [more]... get the overdrawn fees from the bank."

"if you're getting a dishonour fee every time that happens and it's like, what, \$9 a pop, if they do that like every day and you don't get paid for like half a week, that's like \$28-\$30 straight to the bank for a dishonour fee."

Despite such preferences, not all participants were given a choice by their service provider in how they could pay their bills. Some providers require all customers to pay using direct debit and this is a real issue as it undermines consumer sovereignty and can end up costing low income consumers considerably more. This is particularly the case, as we shall see below, when coupled with other difficult requirements like a 28 day billing cycle.

## The 28 day 'month' billing cycle

Generally, the focus group participants who paid their bills per calendar month through a payment method of their own choosing were most satisfied with their billing arrangements. However some participants were forced to pay their bills on a 28 day 'month' billing cycle, making it difficult for them to keep track of when their bill is due because it fell on a different day each month:

"I think I'd probably prefer calendar month...Easier to maintain and take, first of every month rather than it being the 4th and then the 6<sup>th</sup>."

"Yeah, that annoys me. Like, "Pay by the month every 28 days" ... So you actually end up paying for an extra month.... Are we living in February all the time now?"

Apart from just convenience or concern over an "extra month" (which is really that the cost is more than it first appears), the 28 day cycle is particularly problematic when coupled with a requirement to pay by direct debit:

"[28 day month] makes predicting the bill a little bit more difficult if I'm running low, having to move money around or something. Could get caught out. But also it just makes the maths harder to do to figure out what it's going to cost me."

"You can easily miss the fact that it's 28 days."

As low income consumers are less likely to have a savings buffer in their bank account, they are at greater risk of not having the money in their account to pay their bill if they forget or mistake when it is due. As noted above, this in turn can result in paying late fees or dishonour fees:

"I wasn't sure exactly what day I needed to get the money into my account so I'd get a bit of cash and then forget to put it in on the particular day and it would bounce. So it would bounce and then try again like a few days later and hopefully I'd noticed that transaction on my phone but sometimes I wouldn't and it would bounce again."

The 28 day bill cycle exacerbates the problems with direct debiting and can end up costing low income consumers more money on their mobile phone bills than they had originally budgeted for, causing stress and forcing them to sacrifice other items to pay their bill:

"And when I'd realised that I'd forgotten, which was my payday, no money in the bank. I had stuff, payments coming out of my account, so I had to get online and call the bank, get them to put holds on everything for me. Then I had to ring Centrelink, explain my situation to the...But it's been really stressful and I was close to hitting the wall, to be quite honest."

“I had a situation where there was only another five dollars left and I didn’t pay that, and then I got \$15 on top of the five dollars for not paying that five dollars. To me, I paid the main part of the, 99% of the bill but because that five dollars was there they charged me \$15.”

As indicated above this forced billing arrangement is most common with mobile phone plans that tend to be more attractive to low income consumers for their more generous included data value and lower monthly cost, such as the plans offered by Amaysim (3GB for \$29.90/28 days or 7GB for \$39.90/28 days):

“Amaysim like does an auto update and tries to do a direct debit every 28 days, which stuffs me up sometimes because I don’t always keep track, and I get paid on a Wednesday one week and a Thursday the next week, and then it just, yeah, I always get stuffed around. So I’m usually a couple of days without credit, like that happens probably every couple of months.”

This places low income consumers with a difficult choice between plans that give them better value for money with the standard ‘monthly’ cost but come with risks of paying extra fees and charges, or less generous plans but with more suitable billing arrangements. Either way, low income consumers are more likely to end up with a plan with features that hinder the affordability of their telecommunications.

Given this, we believe that **it should be mandatory as part of the *Telecommunications Consumer Protections Code* that service providers allow a choice of payment methods on every plan – probably for all customers, but at a minimum for low income consumers.**

## Lock-in contracts and high exit fees

The other plan feature that limits consumer choice and causes problems for low income households is long lock in contracts with high early termination (“exit”) fees.

The *Telecommunications Consumer Protections Code* requires that customers be told at the time of signing up about any early termination fees (Communications Alliance, 2016), but there is no cap on such fees and no guidance on when they should be applied. Again, it is simply information provision and then caveat emptor.

Most focus group participants with post-paid mobile or home internet plans said they were locked into their contracts for 24 months with high exit fees. Again, for many this was not a choice as the plans that have shorter contracts and lower exit fees have higher upfront and monthly costs, placing them out of reach for many low income people. It is not that focus group participants had not shopped around or understood the lock-in contract. As they said:

“I recently looked between contract and non-contract. The extra cost of not having a contract is not worth it.”

“It’s cost-prohibitive [to go month to month].”

“Simply because I couldn’t afford the upfront payment to get it as a month by month, so it was, I can’t, I think it was \$180 or something to go on a month by month, and then if you didn’t have the money for the upfront payment you had to go on a 24 month plan which I reckon sucks, but when money’s an issue it’s like there’s not much you can do about it.”

While some participants were satisfied with long contract arrangements, many felt they would be trapped into a financial commitment that they may not be able to meet over the long term:

“[I can’t leave my contract] because you have to pay.”

“That’s what’s preventing her from getting out. Because there are fees.”<sup>5</sup>

“we’re paying \$60 for this phone that we’re just not using [ because its broken], the expense of it, like to get out of the contract, having to pay however-many months, whatever’s left, we just don’t have that kind of money laying around.”

Given the high cost of exiting, the length of the contract became a particular concern:

“I often came across...youth at risk of homelessness and that are locked into these exorbitant contracts, that didn’t have that kind of flexibility for them, in their circumstances, so they were paying a couple of hundred dollars a month for a phone when they didn’t have enough money for accommodation, so having to, seeing that was an eye-opener.”

“two years is a long time because circumstances can change, loss of jobs or reduced income or whatever ... and you can make more informed decisions about your financial circumstances in a shorter period.”

While a 24 month contract might catch out anyone with changing life circumstances, such as unemployment or illness, again for those on low incomes the impacts may be greater as they have fewer options in their budgets and less savings to fall back on. Some participants also noted the barriers created by these long term contracts when combined with short-term housing:

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<sup>5</sup> Translated for participant by an interpreter in attendance at the focus group session.

“most plans are for 24 months, most leases are for 1 year. So if you sign a lease and then you need to get your internet on, you can only find one with 2 year thing, then you’re stuck in that place for 2 years or you’re paying out your contract when you move.”

“I just simply can’t afford to get internet put on where I live. And then if I do, how do I know I’m going to be there for another 2 years for your contract?”

Further, long contracts with high exit fees inhibit the ability for low income people to improve their financial situation when cheaper or better value products come onto the market:

“I called them because when I saw advertised on TV, just for \$10 that I can have double data I just called them and I said that I feel very unhappy because for \$10 I can have all this ... And what they say, you have to pay this \$70 switching ... You just feel ripped [off] Yeah but they just say you have contract for 2 years so what can you do?”

There is little doubt that relieving exit fees would improve affordability for low income earners, not just for those who feel trapped in an inappropriate or expensive plan, but also across the market. Long contracts and high exit fees inhibit competition between providers and ultimately prevent lower prices for consumers. As focus group participants noted:

“It’s like with all these cancellation fees and stuff, everyone’s just sticking with their current plan. There’s no real competition except for them trying to get your business to start with. It should be them competing to *keep* your business, not just competing to get your business to start with.”

“I personally think cancellation fees should be abolished. They shouldn’t exist. It’s like you sign up with a company, while you’re happy with that company you stay with them, but if you’re not happy you should have the option of changing. You shouldn’t have to pay a huge fee to get out of using their services.”

Of course some of these comments do not take account of plans where upfront hardware costs (e.g. the cost of a mobile phone that comes with the contract) are incorporated into the monthly cost – and therefore early cancellation effectively still needs to “pay off” the hardware. However, **if there are simple cancellation fees (beyond the repaying the hardware costs component), the *Telecommunication Consumer Protections Code* should mandate that they be waived for those on Centrelink payments or the Low-Income Health Care Card.** This would give those on low incomes more options to manage their expenditure and relieve the stress caused by long contracts.

## Transparency

The final barrier for low income consumers managing their telecommunications usage and expenditure that was identified in the focus groups was around lack of transparency in plan costs and conditions. Given that a large focus of the *Telecommunications Consumer Protections Code* is the provision of consumer information, it was disappointing that many focus group participants expressed dissatisfaction with information on costs presented to them:

“They tell you about all the benefits you get, but they don’t tell you about the things that you don’t get”

“They should’ve actually said, rather than telling me all the stuff I get. Not it’s going to cost me. If you’re late with your bill it’ll be \$15. If you want to pay it by cheque you pay two dollars or three dollars”

“They didn’t make me very aware at all. I was aware of the internet, going over the internet limit, but they weren’t transparent about the late fees”

At least one focus group participant thought problems went beyond just a lack of transparency in that they felt they had been lied to by salespeople. Even in written materials there was a general complaint that the positive features of plans are promoted heavily in large easy-to-read language and graphics, while the less positive features such as extra fees and charges, billing arrangements and other contractual conditions are hidden away in hard to find small print – often at the bottom of the web page or the second page of the Critical Information Summary.

Some participants felt that improvements have been made in recent years to information provision through the introduction of Critical Information Summaries, but most felt that there was still a lot of scope for improvement, such as presenting information in a more consistent format so that they could more easily understand what they were signing up for and compare plans across service providers:

“Not legal jargon. It needs to be in normal people talk. It has got better over the last few years since the bringing out of the new customer information statements. It has become a little bit more clear, but there are still ways that you can get three of them together and they’ll be different still.”

“You need to have the same information, say the same criteria, so you can actually compare them. I mean, for years I just didn’t change anything because I couldn’t be bothered sitting down and trying to make the translations.”

Obviously these issues of contractual transparency are much more difficult for those struggling with digital literacy – and worse again for those from non-English speaking backgrounds. The focus groups threw up many examples of failures of telecommunications company staff to clearly explain products to customers from non-

English speaking backgrounds, of inappropriate plans or products being sold, and of difficulties for people from non-English speaking backgrounds in having issues addressed (including the limited availability of translation services).

While these issues are largely about literacy and transparency and beyond the scope of this report, they impact on affordability because they limit the ability of consumers to navigate the poverty premiums and manage their telecommunications without incurring extra or unnecessary costs.

## **Hardship assistance**

The final affordability issue raised in the focus groups was the experience of hardship assistance provided by service providers. Hardship programs are vital for ensuring both that consumers can stay connected, but also that telecommunication costs do not escalate and drive further hardship for consumers.

The *Telecommunications Consumer Protections Code* requires suppliers to have a financial hardship policy that is easy for consumers to find and access (s6.11) (Communications Alliance, 2016). However, the focus group participants' experiences were mixed.

Many participants were not aware that hardship assistance existed and were surprised to hear from other participants that they could get help with their bills:

“I have no idea [about hardship assistance].”

“No. I didn't know there was anything like that around.”

“I never heard of most of those [hardship] things, my guess is most people wouldn't have [either].”

For those who did know about the policies, some participants were able to successfully and easily access hardship assistance from their service provider, including being put on a payment plan for large bills, having extra fees and charges waived and in some cases being let out of contracts early without having to pay exit fees:

“I just found ringing the hardship department before it gets to the point that they're going to cut you off...just asking straight through to hardship, and they will do what they can to reduce what they can.”

“I have to admit they said if you have any difficulties, just call us 10 days before and if you can't, so you will not pay this charge, \$15.”

However, those positive experiences were far from universal as other participants had difficult or negative experiences. A common complaint was that the process was drawn out and they had to fight and justify every step of the way to get any sort of beneficial outcome. This could be a very draining and stressful experience:

“I pretty much tried ringing up and got the run-around.”

“Sometimes they’re incredibly hard to get a hold of and to get put through to that [hardship] department.”

“Three times the [hardship] application I did online never went through...well Monday I had a phone appointment with a financial counsellor via the hotline. And she rang [but] said it was 5 to 10 business days for their hardship department to get back to you. So I’m waiting for them to get back to me. But in the meantime [they have] restricted me from getting incoming texts and phone calls.”

“Okay, now I’ve got this \$600 bill that I cannot possibly pay. Could you have given me some warning it was going to cost that much? How do I pay this off? How do I do this?” They weren’t forthcoming with a, “Okay, well look, here’s a financial hardship plan, we can do this.” ... It was a, “You need to pay it off ... otherwise you’re not going to get your internet connected at all.”

Some of these instances would appear, at least on their face and without investigation, to be breaches of the *Telecommunications Consumer Protections Code*, including the timing of assessment (s6.12.1(d)); providing information of the financial hardship policy when the customer indicates that they are experiencing hardship (s6.11.1(d); and providing flexible repayment options (s6.12.1(f)).

Many participants reported that they only received a positive outcome after they had involved a third party to act on their behalf such as a financial counsellor or the Telecommunications Industry Ombudsman (TIO):

“Any issues, you just mention [the] TIO, and yeah, they bend over backwards”

“I got the run-around... They refused to take into consideration my health problems. It wasn’t until I got the financial counsellor at Anglicare involved that they halved the cancellation fee, and then they allowed me to pay it back \$5 a month.”

“I lost my job and I moved back with my parents, and I tried to explain that to them... and they still wouldn’t come to the party...and then I subsequently approached a counsellor and then finally got some sense, and then they waived all the charges and cancelled the contract.”

“So it doesn’t matter even though she’s got all the reference numbers and phone calls and proof of phone calls. They still don’t actually live up to what they say would happen. And if it wasn’t for the Ombudsman it would be much, much worse.”

While it is good that financial counsellors or the Ombudsman could assist in these cases, it is problematic if there is a pattern that those who were savvy with hardship processes received better outcomes than those with little experience or who struggle with English language or technical literacy. By definition, hardship programs will deal with vulnerable and disadvantaged people and need to be able to be accessed by those people – otherwise their existing disadvantaged will be compounded and affordability barriers will increase.

While the evidence is only anecdotal from a relatively small sample and without quantitative data to verify how widespread the issues are, there were enough issues raised in the focus groups in relation to hardship programs to believe that **further investigation is warranted into the operations and effectiveness of hardship programs.**

## Summary

Reference has been made above to the *Telecommunications Consumer Protections Code*, largely demonstrating the gulf between the protections in the code and the actual experience of low income consumers in accessing data, managing usage and bill paying. While some focus group participants recognised improvements in information provision, beyond this the Code does not seem to be directed at the challenges and poverty premiums faced by low income consumers.

However, in the absence of other more interventionist regulatory mechanisms, a number of the recommendations from this chapter are formulated in terms of the Code.

That said, it is important to note that the focus group discussions were largely around the participants' experience as low income consumers of telecommunications affordability, rather than around any specific policies or measures that be adopted or regulated. Nonetheless, on this basis of the issues raised, it is possible to make some recommendations to begin to address some of the affordability barriers identified. These recommendations can be considered under the same broad themes discussed above, and are in addition to Recommendation 1, in the previous section.

## Recommendation 2: Data and the drivers of expenditure

In recognition that the dominant driver of telecommunications expenditure and excess charges is the need for more data on low cost plans, products and plans need to be offered that provide adequate data at the same per unit price that applies in higher cost plans.

### Recommendation 3: Barriers to managing expenditure

The *Telecommunications Consumer Protections Code* should mandate that service providers allow a choice of payment methods on every plan – ideally for all customers, but at a minimum for low income consumers.

The *Code* should also mandate that exit fees (beyond the repayment of upfront hardware costs) be waived for customers on Centrelink payments or the Low Income Health Care Card.

### Recommendation 4: Hardship assistance

On the basis of the feedback from the focus groups, further research and analysis is required to determine whether, in relation to hardship policies, suppliers are complying with the *Telecommunication Consumer Protections Code*, whether the *Code* is tight enough to ensure access for vulnerable and disadvantaged people, and whether the content of the hardship arrangements are sufficient to alleviate hardship.

# Conclusion

This report has canvassed a wide range of issues relating to the affordability of telecommunications and has found that within the framework, telecommunications expenditure is:

- essential for living in a modern society;
- a significant factor in the budget of low income Australians; and
- regressive in that it impacts low income households proportionately more.

Perhaps more importantly, the survey data and focus group responses presented here provide clear evidence of a digital divide where low income consumers are missing out on telecommunications services. They have fewer devices per household than the national average, and a large number of them are consistently cutting back or stopping services due to financial considerations.

This telecommunication poverty threatens to exclude them not only from social networks, but also from job and education opportunities, and government support services and commercial transactions. In short, it threatens to compound their existing levels of disadvantage and leave them further behind both economically and socially.

It is also clear that the government response to this affordability issue, in the shape of the Centrelink Telephone Allowance (CTA), is poorly targeted, inadequate and in need of an upgrade. Further, there are a range of market products and practices which, far from facilitating low income customers access to telecommunications, are putting barriers in place.

In order to address the affordability barriers for low income Australians, both the CTA and these problematic market products and structures need to be addressed. While the recommendations in this report are by no means comprehensive, they point too the direction of changes that are required if Australia is to avoid the problems of a digital divide and enable all citizens to participate fully in an increasingly digital economy and society.

# Recommendations

## **Recommendation 1: Reforming the Centrelink Telephone Allowance**

The Centrelink Telephone Allowance is no longer fit for purpose. It needs to be upgraded to reflect modern telecommunications usage and demands, and consideration is needed of its place in the income support system. Specifically, in the first instance, an upgraded CTA should:

- aim to assist with access to mobile-phone communication and internet access with a reasonable call and data allowance;
- be available to all Centrelink recipients;
- have higher rates per child/dependant;
- be increased to a base rate of at least \$60 per quarter (\$20/month);
- be paid fortnightly or monthly.

Secondly, there should be a review of the adequacy of income support payments, and the costs of telecommunications should be included in the consideration of essential household expenditures. If the costs of telecommunications are factored into setting genuinely liveable allowances, then there should be consideration of incorporating the CTA into the expanded base level payments.

## **Recommendation 2: Data and the drivers of expenditure**

In recognition that the dominant driver of telecommunications expenditure and excess charges is the need for more data on low cost plans, products and plans need to be offered that provide adequate data at the same per unit price that applies in higher cost plans.

## **Recommendation 3: Barriers to managing expenditure**

The *Telecommunications Consumer Protections Code* should mandate that service providers allow a choice of payment methods on every plan – ideally for all customers, but at a minimum for low income consumers.

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On the basis of the feedback from the focus groups, further research and analysis is required to determine, in relation to hardship policies, whether suppliers are complying with the *Telecommunication Consumer Protections Code*, whether the *Code* is tight enough to ensure access for vulnerable and disadvantaged people, and whether the content of the hardship arrangements are sufficient to alleviate hardship.

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## **Vanessa Musolino**

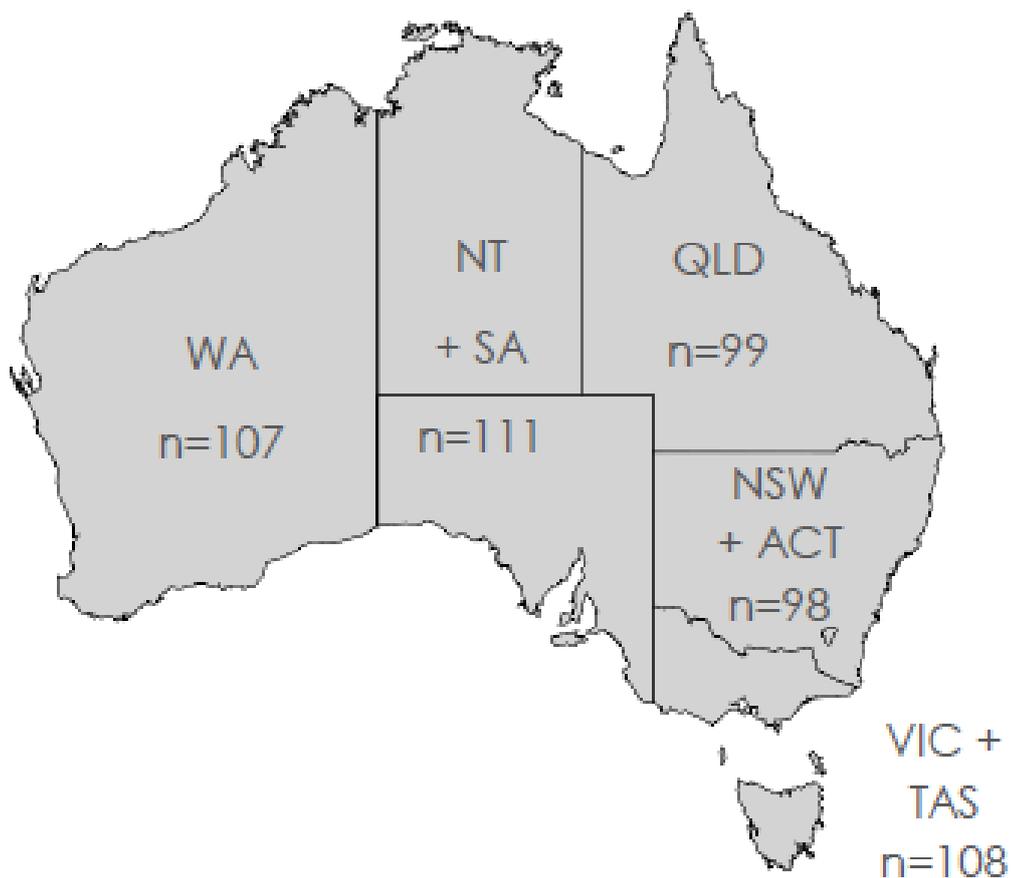
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# Appendix 1: Survey Methodology and Demographics

The Mint Research survey conducted in May 2016 consisted of a 12 minute survey of a random sample of 523 low income telecommunications consumers via a mix of online and telephone surveys. Respondents were asked a range of questions about their use of telecommunications, its importance in their household budget, the technology used and the costs of connecting and remaining connected, as well as questions about the Centrelink Telephone Allowance.

Survey respondents were spread relatively evenly across the country (see Figure 8). The age range of respondents was biased slightly towards older users as per Table 6.

**Figure 8: Geographic spread of survey respondents**



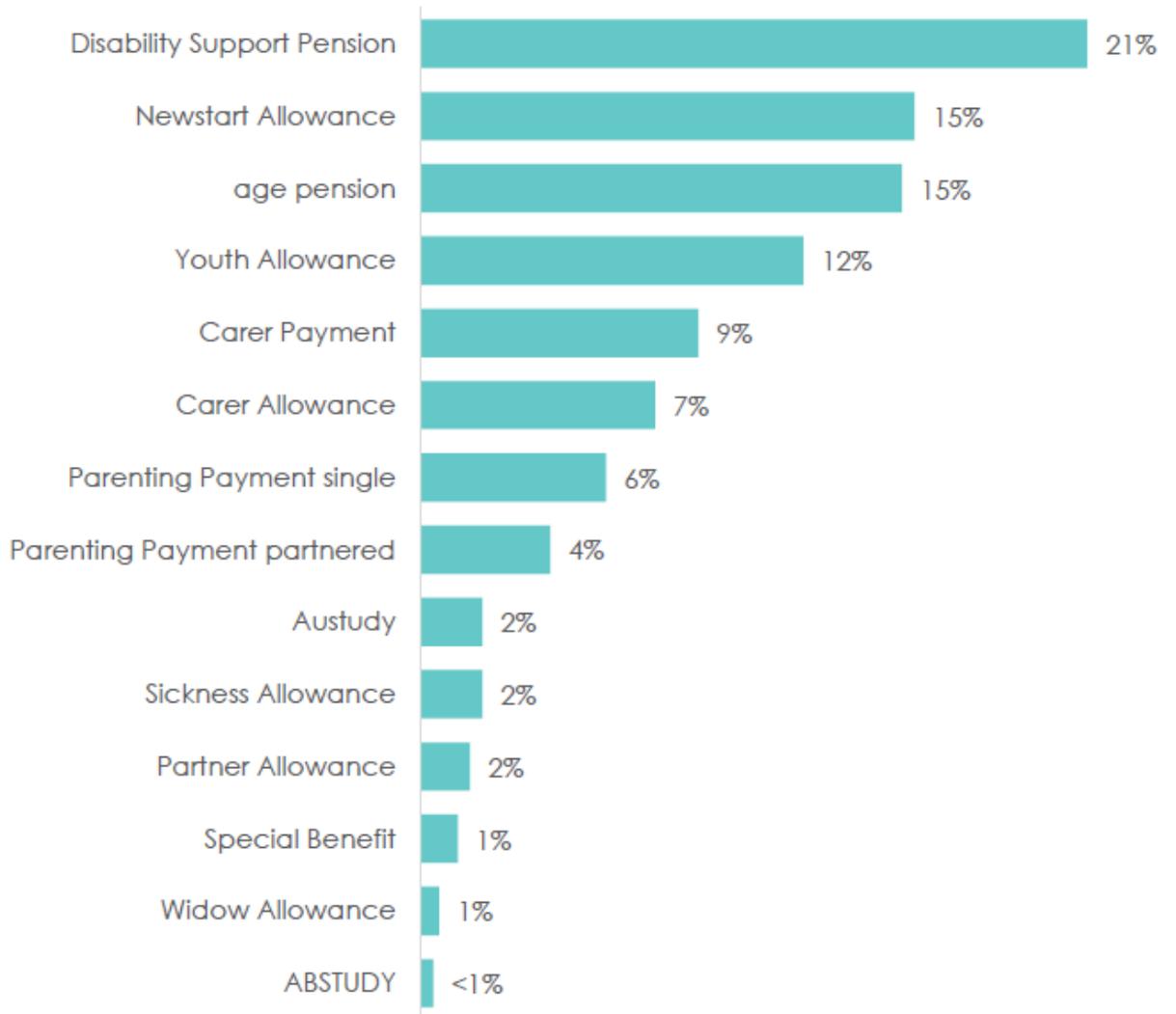
**Table 6: Age of respondents**

<b>Age Group</b>	<b>Survey Share</b>
<b>16-21 years</b>	9%
<b>22-29 years</b>	15%
<b>30-39 years</b>	14%
<b>40-49 years</b>	13%
<b>50-59 years</b>	17%
<b>60-64 years</b>	17%
<b>65 years or over</b>	15%

59% per cent of survey respondents were female, and over half of respondents were living in multi-adult households (ie. with a partner, and/or with children over 15 years old, or a shared house). Twenty three per cent of respondents lived alone, while 15% lived with children.

The survey was targeted to low income households and 8% of respondents were receiving income support payments, with the major categories set out in Figure 9. The remaining 20% were on the Low Income Health Card (eligibility for which cuts out at an income of \$537 per week for a single person with no children, or \$928 per week for a couple with no children or a single person with a dependent child (DHS, 2016)).

**Figure 9: Representation of income support payments among survey respondents**



# Appendix 2: The Centrelink Telephone Allowance

## Eligibility criteria

### Standalone CTA

#### **Basic rate (single or couple combined): \$28.20/quarter**

You may be eligible if you have a telephone connected, such as a landline, fax or a mobile phone, in either your or your partner's name and receive:

- Disability Support Pension and are under 21 with no dependent children
- Parenting Payment (single)
- Parenting Payment (partnered) if you claimed on or after 1 July 2006 and have been assessed as having a partial capacity to work due to a disability
- Newstart Allowance or Sickness Allowance and you are over 60 and have been in receipt of an income support payment continuously for 9 months
- Partner Allowance, Widow Allowance, Special Benefit or Parenting Payment (partnered) and are over 60 but under age pension age and have been in receipt of an income support payment continuously for 9 months
- Newstart Allowance or Youth Allowance and have a partial capacity to work as assessed by a Job Capacity Assessor
- Partner Allowance, or Parenting Payment (partnered) and your partner is over 60 and receives Newstart Allowance or Sickness Allowance and has received income support payments continuously for 9 months, or
- Newstart Allowance or Youth Allowance and are a single principal carer of a dependent child (*DHS, 2016*)

#### **Higher rate (single or couple combined):\$42.00/quarter**

You may be eligible for the higher rate if you:

- receive Disability Support Pension
- are aged under 21 with no dependent children, and

- have a home internet service connected, such as a dial up service, broadband service or an internet connection via your mobile phone, in your or your partner's name

The standalone CTA is paid quarterly with the first regular income support payment you receive on or after 1 January, 20 March, 1 July and 20 September each year.

The payment rates are updated on 20 September each year in line with the Consumer Price Index (*DHS, 2016*).

## CTA via the Pension Supplement

The CTA is also one of four allowances that is rolled into the Pension Supplement.

You get the supplement automatically if you are receiving:

- Age Pension
- Bereavement Allowance
- Carer Payment
- Disability Support Pension - except if you are aged under 21 and have no children
- Widow B Pension or
- Wife Pension

The Pension Supplement is also automatically paid to people over age pension age who are receiving:

- Austudy
- Parenting Payment
- Partner Allowance
- Special Benefit or
- Widow Allowance

Payments that are rolled into the Pension Supplement:

- Pharmaceutical Allowance
- Utilities Allowance
- GST Supplement or
- Telephone Allowance equivalent to the higher rate for internet subscribers

The supplement may be paid either fortnightly or quarterly (*DHS, 2016*)

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