SENATE INQUIRY INTO

Credit and financial services targeted at people in financial hardship

This submission addresses the terms of reference questions in relation to capacity and capability of the financial counselling sector (TOR (c)) to assist people experiencing financial stress. A separate submission was made in relation to credit and financial services targeted at Australians at risk of financial hardship.

SUBMISSION 2 I NOVEMBER 2018

About Financial Counselling

Financial counsellors provide advice to people with money and debt issues. Working in community organisations, their services are free, confidential and independent.

Financial counsellors need an in-depth knowledge of credit law, bankruptcy law, debt collection law and practices, industry hardship processes and government concession frameworks. Financial counselling agencies are exempt from holding either a Credit Licence or an Australian Financial Services Licence as long as they meet certain criteria, including that their services are free and staff are adequately trained.

There are approximately 800 financial counsellors in Australia, and we estimate this translates into around 500 full time positions.

People can access financial counselling through either face-to-face services or by ringing the phone financial counselling service, the National Debt Helpline on 1800 007 007. We estimate that face to face financial counsellors assist around 125,000 people each year. In 2017, the National Debt Helpline received almost 170,000 calls, an increase of 12% on the previous year.

About this Submission

This is a joint submission from Financial Counselling Australia and the State and Territory financial counselling associations: Financial Counselling Tasmania; Financial and Consumer Rights Council; Financial Counsellors Association of NSW; Financial Counsellors ACT; Financial Counsellors Association of Queensland, Financial Counsellors Association of WA; South Australian Financial Counselling Association.

This submission addresses this part of the Inquiry's terms of reference:

"The present capacity and capability of the financial counselling sector to provide financial counselling services to financially stressed and distressed members of the community"

A separate submission addresses the terms of reference relating to credit and financial services targeted at Australians at risk of financial hardship.

Contents

KEY POINTS

What is the current situation?

There are large numbers of people with money and debt problems.

For example, three in ten households are "over-indebted" (ABS data)

But there are not enough financial counsellors to meet demand.

FCA's unmet needs survey showed that for every five people who seek financial counselling, three people are assisted and two are turned away.

NATIONAL DEBT HELPLINE ndh.org.au

Last year, calls to the National Debt Helpline increased by 12%.

People stay trapped in debt or end up accessing the kind of businesses the subject of this Senate Inquiry

Current funding for financial counselling is $64 million per annum ($34 Federal and $30 State Governments)

What needs to change?

- Adequate regulation of payday lenders, rent-to-buy, pawn brokers etc —see our first submission to this Inquiry
- Capacity—More financial counsellors and consumer lawyers
- Capability—support, training, technology for the sector

How?

- Expand the existing ASIC industry funding levy.
- $1 million for the National Debt Helpline
- $130 million for 1,000 financial counsellors (up from 500 FTE)
- $26 million for an additional 200 consumer lawyers

What will be the impact?

An additional **225,000 people** will receive financial counselling

Why does this make sense?

Many financial services businesses have contributed to the current problems (see also the Banking Royal Commission).

Businesses such as banks refer clients to financial counsellors but generally do not contribute to the costs.

Funding is ad hoc, uncoordinated and unstable.

1 There are large numbers of people with money and debt problems

"80 % of clients are currently experiencing mortgage stress with arrears at a minimum of two months plus, including added debts: credit cards, personal loans, car on finance, rates outstanding and utilities etc... Inclusive in this chaos, they may have alcohol and other drug issues, mental health issues, health, gambling, family violence, work cover injury or a combination. These cases take a lot of time to work through as mortgage negotiations alone are long and often difficult to navigate with the lender, especially if there is legal action such as a Supreme Court Writ for order of possession and the Sheriff is changing the locks in three days."

Financial counsellor responding to FCA unmet needs survey

1.1 What the data shows

Data point after data point, research report after research report shows essentially the same thing: there are large numbers of Australians with money and debt problems. The boxes below include examples.

We think that all of us should be concerned about this: lenders, government and our community. But there are very few concerted, coordinated strategies for addressing the problem.

AUSTRALIAN BUREAU OF STATISTICS

Over-indebtedness

Based on the ratio of either income or assets, around three in ten households (29%) are "over-indebted". (ABS, Household Income and Wealth, 6523.0)

Financial stress

13% of the population would be unable to raise $2,000 within a week for something important and 19% of the population had at least one cash flow problem in the previous 12 months (such as being unable to pay an electricity, gas or telephone bill on time) (ABS, 4150.0 General Social Survey: Summary Results, Australia 2014, released 29/6/2015)

AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION

Credit Card Debt

Almost 1.9 million Australians have some form of problem credit card debt: 550,000 people in arrears, 930,000 with persistent debt and 435,000 people repeatedly paying small amounts. (ASIC, Report 580, Credit card lending in Australia, 2018.)

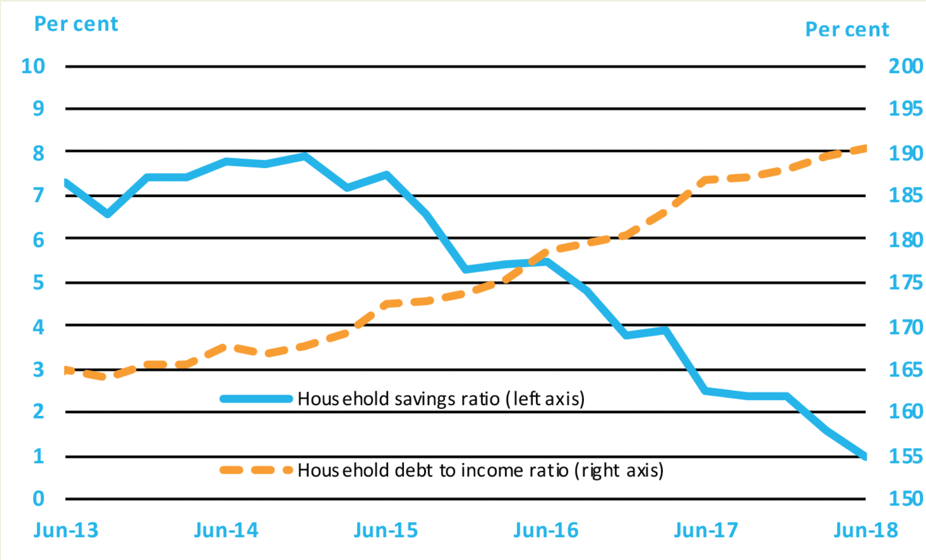
Dealing with money

One in three Australians (35%) find dealing with money stressful and overwhelming. (ASIC, Australian Financial Attitudes and Behaviours Tracker, Wave 6 2018).

RESERVE BANK

Debt and saving

Household debt is at record levels (190% of household income) while the household savings ratio continues to decline. (Source: Parliament of Australia, Parliamentary Library based on Reserve Bank data)



AUSTRALIAN COUNCIL OF SOCIAL SERVICE

Poverty

There are just over 3 million people (13.2%) living below the poverty line of 50% of median income—including 739,000 children (17.3%). In dollar figures, this poverty line works out to $433 a week for a single adult living alone; or $909 a week for a couple with two children. (ACOSS, Poverty in Australia, 2018)

NATIONAL AUSTRALIA BANK

Financial stress

11% of Australians (around 2.1 million people) are experiencing severe or high financial stress (NAB, Financial Resilience in Australia, 2018).

1.2 What do people experiencing financial stress do?

"Trends are showing that clients are unable to meet their energy costs and private rent payments. These two amounts alone usually make up a significant percentage of a low income earner's disposable income and are continually rising. Clients are often forced into payday loans through lack of any other alternatives, just to meet the cost of living which has an even greater impact on their ability to meet their financial obligations. Most clients that use our service do not need our help because of poor money management or extravagant lifestyles, they are simply unable to cope with general cost of living expenses."

Agency manager, responding to FCA unmet needs survey (see Section 3 for details)

Money is a very private matter in our culture and we are reluctant to talk about how we manage and any problems we may have. This means it can be hard to know what pathways people choose when they experience financial stress.

Some people remain trapped in debt and all the negative things this entails.

Some people choose bankruptcy.

More and more people end up with debt agreements—this is an increasingly common form of insolvency and one we discuss in our first submission. A debt agreement is not always the best option for a person.

More and more people turn to payday lenders and other for-profit debt management companies, again

And some people—not enough in our view—seek financial counselling. We discuss this more in Section 3.

2 Current capacity and capability of the financial counselling sector

2.1 How do financial counsellors help?

Financial counsellors provide advice and support to people experiencing financial stress. This can range across so many things, from explaining the pros and cons of bankruptcy, to negotiating reduced payments or debt waivers, to clarifying whether a debt is even legally owed. Financial counsellors also need excellent counselling and communication skills as so many people they see are emotionally on edge and worried. Some clients may be suicidal.

Financial counselling is a free and confidential service. Financial counsellors work in community organisations

2.2 Financial counselling works

We know that financial counselling works because our clients tell us. There are also a number of evaluations, and these are summarised in Appendix 1. The results of one survey are shown in the box.

RESEARCH FROM RMIT UNIVERSITY "I WISH I'D KNOWN SOONER"

There have been a number of different evaluations of financial counselling—there is a summary in Appendix 1. A RMIT survey of financial counselling clients found that:[1]

- 66% said their financial difficulties had been resolved
- 75% said they were better able to prioritise debt
- 74% said the advice had helped them avoid legal action
- 53% had avoided bankruptcy
- 74% were better able to budget
- 73% were able to access creditors' hardship programs.

Financial counselling also contributes to positive health outcomes, especially in alleviating the stress and anxiety associated with financial difficulties.

- 69% felt more positive about the future following financial counselling.
- 63% felt their mental and emotional wellbeing had improved
- 52% worried less about money problems.
- 45% indicated their physical health had improved

The research showed that seeking financial counselling sooner increases the chances that financial difficulties can be resolved, thereby preventing people from becoming trapped in a cycle of debt.

2.3 Financial counsellors are not financial planners

Financial counsellors are not financial planners

Financial counsellors are not financial planners. Financial planners help people with money to invest and the skillsets are very different . But it is interesting nevertheless to compare the numbers between both groups. The Financial Planning Association has 14,000 members, while there are just 800 financial counsellors (we estimate there are 500 full-time employees as many work part-time).

2.4 Financial counselling operates within a defined legislative and professional framework

The work undertaken by financial counsellors is regulated by ASIC. Because of the work they do, financial counsellors engage in two specific forms of regulated activity. The first is in relation to providing limited financial advice under the Corporations Act 2001 (examples would be in relation to basic bank accounts or moving superannuation funds) and the second, by engaging in credit activities as defined by the National Consumer Credit Protection Act 2009 (for example if negotiating for a person to remain in a credit contract with reduced payments). The relevant licences are an Australian Financial Services Licence and a Credit Licence respectively.

1 Dr Nicola Brackertz, "*I Wish I'd Known Sooner" The Impact of Financial Counselling on Debt Resolution and Personal Wellbeing*", Swinburne University, 2012.

Recognising however that financial counselling is a community-based service working in the best interests of clients, financial counselling agencies are exempt from holding either of these licences as long as they meet defined standards. These include that the financial counsellors employed by financial counselling agencies are eligible for membership of their State financial counselling agency (and this in turn poses a number of requirements—see next heading), are adequately trained, and that their services are free.

These exemptions are contained in the National Consumer Credit Protection Act and two ASIC regulatory instruments.

In addition, the terms “financial counsellor” and “financial counselling” are protected terms under the National Consumer Credit Protection Act (see s 160CC).

Professional framework

The professional framework for financial counsellors includes:

- adherence to a Code of Ethical Practice
- a national disciplinary policy
- requirements to undertake a minimum amount of continuing professional development each year (covering technical, counselling and ethical topics)
- requirements to undertake professional supervision
- a minimum entry requirement to the profession (Diploma of Financial Counselling)

2.5 Current capacity: A snapshot of the financial counselling sector

Summary

Delivery channels	■ Phone (via the National Debt Helpline on 1800 007 007) ■ Face to face ■ Self-help tools and resources—www.ndh.org.au
How many financial counsellors	■ 500 full time (800 in total—many financial counsellors work part-time)
How many people assisted?	■ Face to face—125,000 ■ National Debt Helpline—170,000 calls (100,000 from unique phone numbers)
Funding	■ Federal Government—$34 million ■ State/Territory Governments—$30 million Where funding has continued it is has not kept pace with inflation

How is financial counselling delivered?

One on one financial counselling advice is available by phone (through the National Debt Helpline) or face to face. People in financial stress can also access relevant information and tools on the National Debt Helpline website (www.ndh.org.au)

The strategic intent of the service delivery model is to encourage people who can self-help to do so, by starting first at the NDH website. This is why we are investing time and resources into promoting the website. This is the most cost efficient delivery channel.

People who need more help are encouraged to ring the National Debt Helpline on 1800 007 007 and speak to a financial counsellor. Roughly around two thirds of callers receive the advice they need on the phone, with a third referred to face-to-face financial counselling because the matter is more complex.

People of course can also access face to face financial counselling direct and do so. Many face-to-face services have a triage process so that urgent matters are prioritised, for example, if a person’s home or car is at risk of repossession.

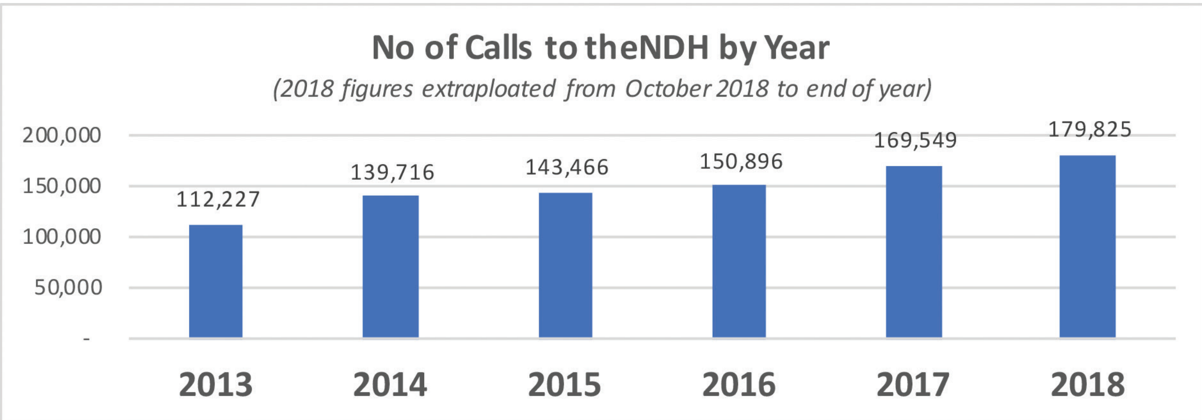
How many people do financial counsellors assist?

It is difficult to be precise about numbers of people assisted because there is no one data collection point for face-to-face financial counselling services. We can track the number of calls to the National Debt Helpline however. There is obviously also some overlap in numbers between the phone and face-to-face services as some people ring first and then see a face-to-face financial counsellor.

We estimate that:

- Face to face services assist 125,000 people per annum
- The National Debt Helpline receives 170,000 phone calls (of these 100,000 are unique calls)

Call volumes to the National Debt Helpline have increased year on year as shown in the graph below. Calls for October 2018, the most recent month for which we have data, were the highest ever for that month, and 10% higher than October 2017.



2.6 Funding for financial counselling: ad hoc, uncertain, uncoordinated

Adequate funding for financial counselling has been the single most pressing issue for our sector since the service first emerged some forty years ago. We write more about the most recent problems with the funding rounds for the Department of Social Services in Section 5.

The continued theme is that funding for financial counselling is almost always under threat. There is example after example of where governments either cut funding completely or reduce it substantially. Some State governments have defunded services in one budget and then reinstated it again one or two budgets (or more) later, once they've realised the original decision was short-sighted. Financial counsellors are sometimes given just a few weeks notice that they've been made redundant.

All of this adds up and makes it really hard for our sector to retain staff—we lose people who are passionate and competent to more stable jobs and the investment in their training is lost. This uncertainty also makes it really hard for financial counselling agencies to manage their services. It is also an awful outcome for clients, as agencies that close have to either stop helping them or find an agency that can take over instead.

The table below describes some of the funding problems and issues that the sector has grappled with in the past few years. And if nothing changes, we will continue to grapple with.

Federal Funding	**2013 tender process** ■ September 2013—Coalition government elected ■ May 2014—Commission of Audit recommends that the financial counselling sector be completely de-funded ■ May 2014—Budget actually continues funding, existing contracts extended until 31/12/14 while tenders are conducted ■ December 2014—MYEFO cuts funding (our estimate is that funding is cut by about a third) ■ Unsuccessful agencies initially given just a few weeks to close down, later extended for two months **2017 tender process** ■ December 2017—funding contracts extended for six months to June 2018 ■ March 2018—funding contracts extended for further six months to December 2018 ■ July 2018—tenders for funding begin ■ October 2018—successful, unsuccessful tenderers advised ■ November 2018—due to concerns about timing, government advises that unsuccessful agencies will have a three month extension. This is later extended to 12 months. New agencies have 4.5 year funding contracts.
NSW	■ September 2012—three year contracts, funding reallocated resulting in some financial counsellors losing their jobs ■ 2015—week before funding decisions to be announced, the government announces a review and contracts extended temporarily. Eventual review sees some agencies defunded and job losses again. ■ 2018—funding contracts extended for 12 months. Unclear as to the rationale and what the plans are for the future.
Victoria	■ Core funding has been stable for a number of years (but subject to tender). Contracts include indexation. ■ February 2017—10 specialist family violence financial counsellors ■ November 2018 - additional family violence financial counsellors will be funded as part of the incoming Government's election promises

Queensland	■ January 2009—two years funding announced (first from the Queensland State Government) ■ 2011—Funding continued for two years to assist in the recovery from the floods (with the Commonwealth assisting) ■ 2013—Funding cut completely by the new government ■ 2017—Funding for "financial resilience" also provides for financial counselling
South Australia	■ 2018 budget defunded all financial counsellors working for the State government. A much reduced amount of funding will instead go to the community sector.
Western Australia	■ 2015—Government announces it will be defunding all of Perth metropolitan financial counselling. There is a huge backlash and campaign. About 50% is reinstated. ■ 2017—new Government reinstates funding as promised. ■ Services are on rolling six month contracts since the end of June 2018, recently extended for a further six months. This was so the State could see what the Federal Government was doing.
ACT	■ Funding has been stable
Tasmania	■ Funding has been stable
Northern Territory	■ No government funding

Where funding has continued, it has not kept pace with inflation. What happens in practice is agencies reduce the number of hours that a financial counsellor is working, for example, from five days per week to four days.

National Debt Helpline

As noted above, the number of calls to the National Debt Helpline has been steadily increasing. The only way that this service has managed to keep up is through additional, one-off funding via two Community Benefit Payments facilitated by ASIC. These have allowed the NDH to employ additional staff. This funding source will be exhausted by June 2019.

2.7 Capability of the financial counselling sector

Financial counsellors can only do their jobs if they:

- keep up to date with relevant changes, for example changes to laws or new initiatives from industry;
- have access to adequate training and development, for example, FCA ran workshops for the sector this year about working with people affected by family violence (with funding from the Commonwealth Bank); and
- are supported in managing their work, which is often stressful and challenging.

Compared to the past 10 years, there is no doubt that the capability of the financial counselling sector has increased. The peak body for financial counsellors, Financial Counselling Australia was refunded by the Federal Government in 2009. Some of the State financial counselling associations also have funding from their State governments: these are the Victorian, New South Wales, South Australian and WA associations. The Financial Counsellors Association of Queensland however has no funding. Funding for State associations is vitally important as they are the closest to the sector and provide the lion's share of the training.

While the current situation is better than it was in the past, the capability of the sector as a whole is not where it should be. One major gap is in getting access to face-to-face training. Funding levels mean that many agencies do not have the funds to allow their staff to attend training and the sector can't provide it anyway. We have partially filled the gap with more online training, such as webinars, but these are not a substitute for high quality, direct interaction.

Like much of the community sector, financial counsellors are still hampered by outdated technology and may not have access to adequate computers for example.

Financial counsellors working in rural and remote areas—about 50% of the sector—are particularly disadvantaged because of their isolation. The costs and the time in attending training are often prohibitive.

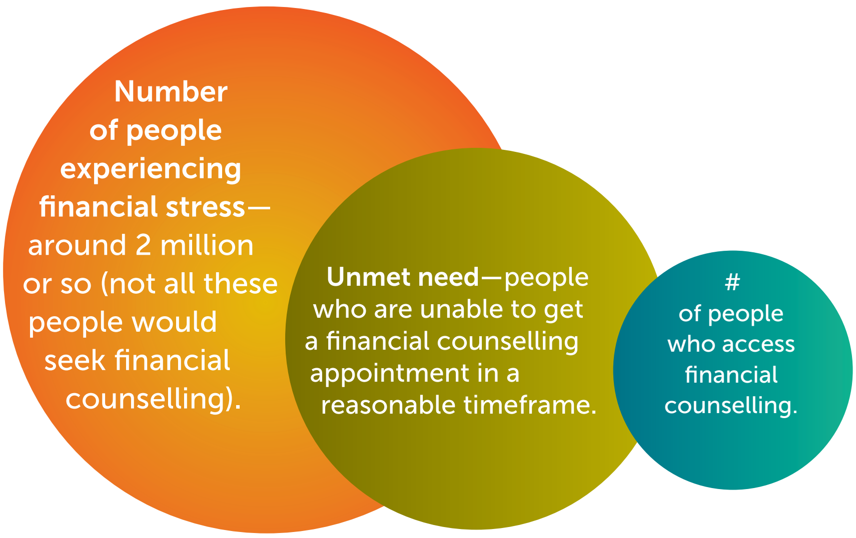
3 Demand for financial counselling exceeds supply

"We both do unpaid overtime which is our choice (if you can call it that—as we stress about the amount of work we have waiting for us on the waitlist where we can't close our books due to no other service being available to take on overflow) we are both doing the best we can but honestly—we are both afraid we are going to miss something and a client will lose an asset (or worse take their life) … Our story is not unique, we have an incredible boss and agency but this the story of all financial counsellors in today's working environment / financial climate."

Financial counsellor responding to FCA unmet needs survey

3.1 Overview

Financial counselling agencies have always struggled to meet demand. We accept that we will never completely solve this—financial counselling is a free service and there are large numbers of people who need assistance. But having said that, long waiting lists and ongoing demand has always been a concerning element of our operating environment. Far too few people access financial counselling, either because they don't know about it or because of capacity constraints in the sector. The diagram below, which is a representation and not to scale, is one way of looking at this.



3.2 Unmet needs survey

To get an idea of unmet need and demand management in the sector we conducted a survey of financial counselling agencies throughout Australia to inform this submission. The survey was conducted in the week beginning Monday 12th November 2018. We sent the survey to 256 agency managers and received 117 responses, a response rate of 46%.

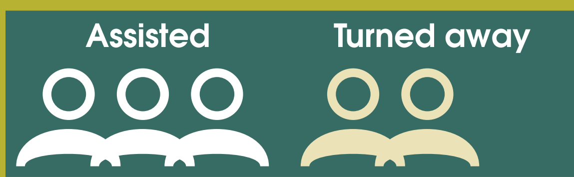
Respondents provided us with a lot of useful qualitative data and we will be preparing a separate report on the survey. The key results are described below.

Turn away rates

One of the measures of unmet need used in the survey was turn-away rates: how many people sought a financial counselling appointment but the agency was unable to help them? We asked agencies to provide this information for the week beginning Monday 29th October 2018[2] and we then compared it to the number of new clients who actually had an appointment in that same week.

Not all agencies collected data on the number of people they were unable to assist, but 58 agencies did provide this information. This showed that agencies saw 1,092 new clients, but 823 people were unable to be assisted. This means that roughly 60% of people seeking assistance were able to be accommodated and 40% were not. **Another way of putting this is that for every five who seek financial counselling, three people are able to access it and two are turned away (see diagram).** It is important to note that they may be "turned away" to another service or to the National Debt Helpline phone service and we are unable to track this in this survey.

There are not enough financial counsellors to meet demand.



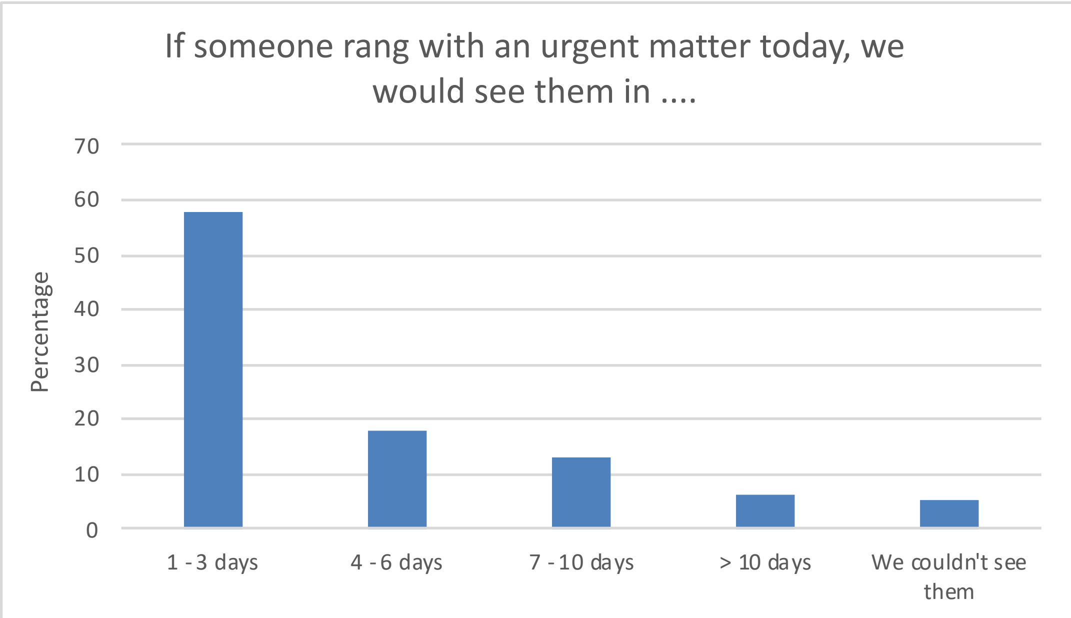
FCA's unmet needs survey showed that for every five people who seek financial counselling, three people are assisted and two are turned away.

2 Some WA agencies used the week beginning Monday 5th November instead as during the week Monday 29th October, as many of their financial counselling staff were attending the WA conference in the week chosen.

Managing requests for support from clients with urgent matters

The survey asked how agencies managed matters that were urgent. Agencies used slightly different definitions of urgency, but generally an urgent matter is one where a person is at risk of disconnection of utilities, imminent loss of an asset such as their home or where legal action has commenced.

As a whole, the sector is doing a reasonable job assisting clients with urgent matters as shown in the graph below. The survey asked how many days a person would need to wait to see a financial counsellor if they rang that day with an urgent matter. 86% of agencies said would see them within 10 business days.[3] Only a third (31%) would see them within one business day.



Agencies manage demand in various ways, even within the same service, as described below by one agency manager:

> "This varies because we will fit in an emergency in a couple of spaces we keep, for example, a person came in at 3.30pm and was being evicted for rent arrears the next day. They had to be seen and a full [income and expenditure statement] done & negotiation with other creditors. We also have walk ins at [another location] on a Thursday so they book on that actual day".

3 Ten business days may be too long in some cases. However, this length of time is generally how long banks believe it is reasonable to wait.

Managing non-urgent matters

When services triage, 57% of respondents said that people with non-urgent needs have to wait 10 days or more for an appointment.

The problem with having people wait because of "non-urgent" matters of course is that the matter can become urgent purely because of the delay. For example, a debt may be sold to a debt collector and legal action may commence.

Wait lists

Wait lists are used by about half of the agencies who responded to the survey as a way of managing demand. There are varying practices about how they are used:

- For agencies that don't close their wait list to new appointments but simply keep adding people to them, wait times ranged from one week to more than six weeks (please note, the survey didn't allow for wait times longer than this). The average wait list time was between two and four weeks (74% of respondents);
- For agencies that closed their wait lists after it a certain timeframe, the most common wait list time was four weeks or more (64% of respondents) (please note, the survey didn't allow for a longer wait list than more than four weeks). These agencies appeared to regularly close their wait lists to new clients, with the most commonly answer five times or more in the previous year.

Trends over time

Almost half (48%) of (the respondents said that demand was a lot more than 12 months ago. Only one agency said that demand was "a lot less" or "a little less". Reasons for increases in demand included rising costs of living, unemployment increases (specially in WA), mortgage and credit card stress, increased awareness of financial counselling services, increase in the number of people presenting with domestic violence and mental health issues and drought.

3.3 What does this all mean?

Financial counselling agencies have always struggled to meet demand. Anecdotal reports from the sector and this survey show that there are real problems. While it is pleasing that many people with urgent matters are being assisted, this does not happen all the time. And relatively large numbers of people are consistently turned away.

Heavy workloads are also negatively impacting on staff, as illustrated below:

> "We are currently considering how to manage workloads as we are seeing signs of serious stress in our staff. Self-help cards for people who might be able to use them and manage their own issues, together with referral to the National Debt Helpline or other relevant external agencies. Then we use our list of priorities, and finally make appointments for up to one month ahead. Nonetheless, we still struggle to manage demand".
>
> *Agency manager, survey respondent*

4 Our vision for the sector

4.1 An Australia with Fewer People in Financial Hardship

We have big dreams for our sector and are doing what we can to realise them. With the support from government and industry we could do so much more.

Our vision is “An Australia with fewer people in financial hardship”.

As we set out in Section 1, there are large numbers of people with money and debt problems. Solving this problem requires a concerted effort—partly this is about greater access to financial counselling but there also needs to be a system-wide response. Four things are needed.

- First, we need safe and fair financial markets as the absolute minimum. We don’t have these at the moment and many of the products that are being considered in this Senate Inquiry are part of the problem. The banking Royal Commission has also highlighted the role that banks have played in causing financial hardship.
- Second, we need a social security safety net that is just that: it provides an adequate standard of living for people who are unemployed, sick and living on a disability support pension or retired and living on the aged pension.
- Third, we need the financial services industry to help fix the harm they have caused through irresponsible lending, particularly with credit cards and down the track, once interest rates go up or unemployment increases, the inevitable problems that will crop up with mortgages and other loans. They will need to be prepared to write off debts and re-negotiate affordable payments. Bank hardship practices, at least for the major banks, have improved markedly in recent years and we need to retain these standards.
- Four, we need to change the focus in our community from borrowing and spending to saving. There is not enough emphasis on saving as one of the most effective contributions to financial wellbeing. For example, the 2018 ANZ research into financial wellbeing found that saving some money was one of the strongest contributors to financial wellbeing—much stronger than one’s level of income.

And finally, in an ideal world, we should place on the record we’d like to do ourselves out of a job. There would be far less need for financial counselling if the four suggestions above were addressed. People would still find that the vicissitudes of life, such as unemployment, illness or relationship breakdown, could knock them for six, but the problems may not be as significant.

4.2 How we will get there: our contribution

This is how we see an ideal future for our sector.

An integrated, early intervention and prevention model

The earlier a person experiencing financial stress seeks assistance the better. They will have far more options and therefore more chance of overcoming their financial issues. Financial counselling should be positioned as an early intervention and prevention model, and not just picking up the pieces.

The National Debt Helpline is the gateway to assistance and to financial counselling—it needs to be as well-known as Beyond Blue. We therefore need the resources to promote the NDH, through google/search engines, traditional media and social media.

The call to action is to "self-help" initially, but to ring the National Debt Helpline on 1800 007 007 if a person needs more assistance. The focus on self-help recognises that many people can do this if they are just given the right information and tools. This is why the National Debt Helpline website (www.ndh.org.au) is an integral part of the strategy and needs a specific focus.

The National Debt Helpline would also open for longer, including weekends. And it would deliver services using "chat" and video, not just phone.

People who need more help would be triaged by the National Debt Helpline to face-to-face services so they could receive more intensive support.

All of our services—phone and face-to-face—would use technology to improve service delivery. One example, could be to integrate an appointment booking system between the phone service and face to face services.

There will also be specialist financial counsellors and financial counsellors embedded in locations where people will benefit from their services—rather than a person having to come to a financial counsellor, the financial counsellor should go to them. Specialist financial counsellors will include those assisting people affected by family violence and gambling financial counsellors. Financial counsellors would also be located in places like hospitals and prisons.

Finally, financial counsellors would work closely with their colleagues in community legal centres. Access to legal advice is absolutely critical for a number of clients and this model would leverage this relationship.

Funding for financial counselling

We recognise that there will always be more demand for financial counselling than there is supply. Having said that however, increased funding could go a long way toward reducing the current demand/supply imbalance. Section 5 following sets out a different funding mechanism through industry.

In relation to government funding, we need a national partnership agreement between the State and Federal Governments so that funding decisions are coordinated and base funding levels are agreed. There are similar agreements in place for other services such as the NDIS and for joint funding of community legal centres.

Filling current gaps in service delivery

There are a couple of glaring gaps in service delivery at the moment and these would be filled. The first is for small business. The current licensing exemption for financial counsellors allows them to help individuals only and does not extend to business. That means we can only go so far. Yet there are more and more small business people contacting financial counsellors.

The second gap is for Aboriginal and Torres Strait Islander people in regional and remote communities. Funding for financial counselling and capability services was cut in 2014 and it costs a lot more to deliver these services. The disadvantage faced by Aboriginal and Torres Strait Islander people is immense.

Capability of the sector

Our vision includes adequate funding for FCA and the State financial counselling associations, so that we can support financial counsellors to do the best job they can.

5 An industry levy is a better way to fund financial counselling

5.1 A better funding model would be to replicate the UK where they have an industry levy

Rather than relying on limited, unpredictable and piecemeal government funding, a better mechanism for financial counselling would be an industry levy that sourced financial counselling funding from those businesses generating much of the demand.

This approach would replicate that in the United Kingdom, where an industry levy funds both the corporate regulator and community based financial counselling (called debt advice). We have part of this model in Australia with our corporate regulator ASIC now funded through an industry levy. It would be relatively straightforward to adapt this model to source funding for financial counselling services.

An industry levy would include all of the financial services entities regulated by ASIC such as payday lenders, debt collectors and insurers, as well as the major banks. All of these businesses interact with financial counsellors.

The ASIC industry funding levy will raise about $250 million in the 2018 – 2019 financial year. ASIC has divided the entities it regulates into 48 subsectors. The ASIC website explains that:[4]

Some entities will pay a flat levy, with the cost of regulating a subsector shared equally among the entities operating in that subsector. Other entities will pay a graduated levy, with the entity's size or level of business activity determining their share of costs.

For government, the major advantage of an industry levy course is that the funding of financial counselling would be one less item of expenditure.

For financial counselling agencies, an industry levy would provide certainty of funding, lock in adequate funding and allow forward planning.

4 https://asic.gov.au/about-asic/what-we-do/how-we-operate/asic-industry-funding/#how, accessed 19th September 2018.

5.2 A service delivery model of financial counsellors and consumer lawyers

The model we are advocating for is a joined up one that will also include community legal centres. There is more information about community legal centres in the box.

We are calling for funding of $157 million per annum to create a properly funded network of community financial counselling and community legal centres. This is composed of:

- an additional $1 million of the National Debt Helpline (on top of existing funding);
- $130 million for 1,000 financial counsellors (double the existing number);
- $26 million for an additional 200 community financial service lawyers located across Australia.

ABOUT COMMUNITY LEGAL CENTRES

Community legal centres are independent non-government organisations that provide free legal services to people and communities at times when that help is needed most—particularly to people facing economic hardship and discrimination. Community legal centres help people with a range of legal problems, which means they don't spiral out of control or create other legal problems.

Community legal centres also provide an 'early warning system' for systemic issues, which the Royal Commission has also highlighted in its hearings.

In 2017 – 18, community legal centres helped over 200,000 people across Australia. Credit / debt issues are among the top 5 legal problems dealt with by community legal centres, alongside family/domestic violence, family law and housing/tenancy.

There are five specialist community legal centres with a focus on the rights of consumers, and who also provide legal support and training to financial counsellors:

- Financial Rights Legal Centre (New South Wales)
- Consumer Action Law Centre (Victoria)
- Consumer Credit Law Centre South Australia
- Consumer Credit Legal Service (WA)
- Consumer Law Centre (ACT).

Component 1: additional $1 million for the National Debt Helpline

This helpline, coordinated by Financial Counselling Australia, is staffed by different community organisations in each state and territory, two of which are community legal centres. The helpline involves:

- Assessment and triage
- The provision of information and/or referral, including to face to face financial counselling services or consumer credit legal services, and
- The provision of financial counselling advice so that callers can make an informed choice about their options, and in some cases access to further casework and advocacy.

Current funding is not adequate to support the website's core functions or to analyse the work of the Helpline. The additional funding would be used to:

- continually update the website
- develop new content including videos
- implement website search engine optimisation so that people in need of help are prompted to contact the National Debt Helpline
- disseminate promotional material for the service, including providing flyers and posters to community organisations, government services such as Centrelink, and MP electorate offices and writing appropriate articles and content that other organisations can use that will promote the NDH
- respond to requests from government, media and other stakeholders
- collate and analyse call data to inform policy development
- continue to innovate and increase accessibility, for example through developing new tools such as service delivery through chat and letter generators for people who can self-help.

With sustainable staffing and funding, the NDH phone line and website can scale up to be a one-stop-shop for all people in financial stress who need to know where to get help.

Component 2: Integrated teams—financial counsellors and lawyers

An integrated team model in which lawyers and financial counsellors work together provides efficiency and specialisation. An integrated team model encompasses either lawyers and financial counselors working together in situ, or strong and established referral pathways between financial counsellors and lawyers with a specialisation in financial services.

Financial counsellors

The Network would involve the funding of 1,000 FTE financial counsellors, which is a doubling of the current number of counsellors. The financial counsellors would be trained in screening for legal issues, and either working in situ with lawyers or with strong referral processes to specialist lawyers.

Specialist community lawyers

The Network would expand the community legal centre workforce with funding for 200 new lawyers, specializing in financial legal issues, located across both the existing specialist consumer credit legal services and the broader network of community legal centres. Key issues and particularly vulnerable communities would be prioritised—for example the mis-selling of funeral insurance in Aboriginal and Torres Strait Islander communities. The determination of appropriate location for lawyers and appropriate service models would be further developed by the National Association of Community Legal Centres working with the sector.

5.3 An additional 225,000 people would receive financial counselling

In relation to the financial counselling component:

- an additional 125,000 people would receive face to face financial counselling
- an additional 100,000 people would receive information and advice through the National Debt Helpline

At least 500,000 unique visitors could be expected to the website giving them access to self-help resources (increase of 400,000).

5.4 Why an industry levy is good policy

There are two main reasons why an industry levy is an appropriate policy response.

First, financial services businesses are a major cause of the problem. The box below has some relevant quotes from the Royal Commission. Irresponsible lending is a particular problem and a common component in financial counselling casework. This occurs across the board, including from some of the businesses that are the subject of this Senate Inquiry.

Financial services businesses profit from irresponsible lending, but rarely pick up any of the subsequent costs. These costs can be substantial and include increased demand on charities for food or vouchers to pay electricity or telco bills or emergency housing. There are detrimental flow on effects to health and relationships and these are borne by individuals, government and tax payers.

Second, banks in particular refer their customers to financial counsellors for help, but only provide minimal contributions to the sector. It is only fair that they pick up the costs of doing this.

ROYAL COMMISSION INTO MISCONDUCT IN THE BANKING, SUPERANNUATION AND FINANCIAL SERVICES INDUSTRY

"Much if not all of the conduct identified in the first round of hearings can be traced to entities preferring pursuit of profit to pursuit of any other purpose."[5]

"The evidence showed that a credit limit increase would be offered to a credit card holder, and granted, if the bank judged that the card holder was unlikely to default in meeting the minimum repayment … But that is not what the responsible lending provisions required. Contrary to those provisions, the banks made no inquiry about the customer's circumstances, requirements or objectives."[6]

'When financial problems become acute, consumers can and do seek financial counselling."[7]

5 Interim Report, volume 1, p 54.
6 Interim Report, volume 1, p 65.
7 Interim Report, volume 1, p 52.

6 Problems with the 2018 DSS Tenders

6.1 Introduction

This section outlines our concerns with the recent tender process conducted by the Department of Social Services (DSS) for funding under their Financial Counselling and Wellbeing Activity. We also question the value of tender processes of this nature and make suggestions for improvements.

This is relevant to the Committee's terms of reference as it goes to the capability of the financial counselling sector to deliver effective and efficient services.

6.2 Overview

In short, the DSS tender process was a disaster. These are strong words, but it is hard to describe it in any other way.

The Department was roundly criticised just a few years ago for the last tender process in 2014. The Senate Community Affairs References Committee concluded that:

"the 2014 tendering process was poorly planned, hurriedly implemented, and resulted in a loss of services ... the process does not appear to have been equitable and transparent."[8]

DSS promised that they would learn from this experience, but in reality exactly the same problems occurred.

The timelines in this tender round were always too short, and that was abundantly clear right from when the tenders opened at the end of July 2018. There was never going to be enough time to run the process and allow agencies, whether successful or unsuccessful, to put new arrangements into place to start on 1 January 2019.

A more fundamental issue however is to ask what has been achieved by the tender? For all of the work and stress involved, and the disruptions to service delivery, financial counsellors will still be doing substantially the same job in whatever agency they're employed. It is difficult to see how service delivery will be improved.

8 Senate Community Affairs References Committee, *Impact on Service Quality, Efficiency and sustainability of recent Commonwealth community service tendering processes by the Department of Social Services, September 2015, P 48.*

6.3 The process problems

"Unfortunately however, due to DSS funding I am one of those affected and this will be the second time I will be retrenched within 12 months! The decision late Wednesday to extend the funding until March, will mean that yes great, I get some extra time, but after March unless something changes I will no longer work with clients in xxx and yyy who are experiencing significant mortgage stress including significant financial debt, social and ill health issues."

Financial counsellor who is being retrenched (again)

There were a number of process problems.

- Unsuccessful agencies were notified at the end of October. This gave them just two months to close down their service, which is not enough time. Subsequently, the Minister stepped in and extended the contracts for these agencies initially until 31st March 2019[9] and as a result of a yet later decision,[10] for 12 months to 31st December 2019. This provides much needed breathing space;
- Successful agencies were also notified at the end of October, either by phone or email. However, they did not know what they'd actually been successful for—which areas? As there was nothing in writing, agencies could not act on the information.
- Meanwhile financial counsellors working in unsuccessful agencies were being made redundant, but had no idea whether and where any new positions may become available, or even where to refer clients they were starting to turn away. And this is six weeks before Christmas. (These decisions may possibly have now been stayed, given the latter announcement of an extension.)
- The Department promised that the names of the successful tenderers would be published on their website by Friday 9th November at the latest. In fact, this did not occur until Wednesday 14th November. Agencies only received written contracts by the end of 16th November. Our understanding is that they were given between five and 10 business days to sign them.
- There are still reports from agencies that the actual contracts are not specific enough about what areas agencies are required to service.
- It is difficult to see how new agencies can possibly gear up and be ready to take on new responsibilities to start by 1 January 2019.

9 This information was conveyed to us on Wednesday 14th November 2018.
10 This information was conveyed to us on Friday 23rd November 2018.

6.4 The National Debt Helpline tender

The way in which the National Debt Helpline tender was conducted deserves specific mention because it has created significant and ongoing challenges. These challenges are also outlined in a separate submission from the Financial Rights Legal Centre and the Consumer Action Law Centre.

In short, the Department's decision to de-fund some of the current providers and instead fund new providers, put the whole model at risk. There is a separate organisation delivering the National Debt Helpline in each State, but they work together in a collaborative way using the same phone number (1800 007 007), brand name and website (www.ndh.org.au).

The Department removed funding from the WA, NSW and Victorian NDH providers. Both the existing NSW and Victorian providers also receive substantial funding from their State Governments to run a financial counselling helpline. The DSS tender decision meant that the successful tenders would have about 25% of the funding, but receive 100% of the calls. One result could have been competing helplines in those States. The WA service also receives some funding from a government-owned utility, and although the proportion of that funding overall is not as high as that in NSW and Victoria, it raises similar issues.

One option DSS is now exploring to try and fix the problem is distributing or sharing calls between the services in the affected States. How this might work is not clear and it will inevitably create coordination challenges, including two sets of systems, data collection issues with call backs going to different services and different referral arrangements.

The DSS tender documents gave no scope for new tenderers for this service to adequately anticipate or deal with these issues as it did not provide basic data on call volumes by State, describe how the existing model works or describe what infrastructure would be required to deliver the service (such as call centre technology). Each of the existing eight NDH providers also submitted substantially similar tender responses and it is not clear why five were successful and three were not.

The Minister for Social Services subsequently provided some breathing space by extending the funding for the existing providers for 12 months. This will allow some time for the new and existing services to try and negotiate a different model. It is not clear exactly what this may be at this point of time.

6.5 Service gaps

A couple of specialist services have been de-funded and it seems likely that the new providers will not be filling those gaps. These were the Prisoners' Legal Service in Queensland which employs the only specialist prison financial counsellor in Australia, a specialist alcohol and drug service in Victoria and a service focusing on homeless people in Victoria.

There may be other service gaps as well, but it is hard to tell from the publicly available information.

6.6 For what value??

The underlying question is what has been achieved from this whole process? The Department tells us that the amount of funding remains the same, so the only purpose presumably was to improve service delivery or improve value for the same amount of money.

It is not at all clear this will be the outcome: in fact, in the short-term, service delivery will go backwards because of the transition issues. These occur as new agencies will need to hire staff, potentially find new offices/service outlets and develop local connections. In asking what value this process will deliver we note:

- DSS does not appear to have a strategic view about where it sees the financial counselling sector in the longer-term. That would have been a useful starting point in an open tender.
- The funding available in some location was far less than the amount needed to actually deliver a service. Importantly, there has been no indexation in this grant since at least 2013, and none provided during the life of the new contracts, which will take the program through to 10 years with zero indexation. Service delivery inevitably suffers, usually through agencies reducing the hours that they offer financial counselling.
- The attributes used in the DSS tender documents to discriminate between tenders were operational. It is hard to see how there would have been major differences between agencies. For example, there were three selection criteria. Criterion three asked agencies for information about "collaborative relationships with local support services" and how they would provide "effective referral pathways". It would be difficult to imagine any agency that would not have been able to adequately answer this. Similar criticisms could be made of the other criteria.
- There was no assessment of the past performance of agencies at all. The sector had just been through a bruising tender process in 2015. Did DSS know which agencies had done a good job or not?
- The whole tender process was therefore "on the papers". What an agency may write and promise in a tender document may be quite different to what actually occurs. And as noted above, DSS does not appear to actually measure and assess performance ex post.
- An "on the papers" process means that "success" can be more about how well an applicant can write and tell a story in a tender document, rather than substance.
- Some agencies received substantially more funding in the 2015 tenders only to lose funding in 2018. Other agencies were de-funded in the earlier process, only now to be re-funded. What had changed?

- The people assessing the tenders appear to have very little knowledge of the environments and challenges facing the sector. How many have ever visited a financial counselling agency or emergency relief outlet or talked to people experiencing financial stress? No one in the private sector would assess a tender without a practical understanding of service delivery.
- Financial counsellors were losing their jobs weeks before Christmas. This was enormously stressful and upsetting for the people affected.

Our view is that little will be gained by these tenders, but much will be lost. After all, when a financial counsellor is in an office talking to a client, the service they deliver will be substantially the same, regardless of the name of their employer. All the tenders have done is cause significant disruption.

It is also really sad to see how agencies are less likely to collaborate now than they were in the past. Innovations and changes that would have been shared and built upon are now proprietary and seen as intellectual property.

Competitive tendering is based on assumptions about markets that may not apply in financial counselling. These are thin markets, particularly in some locations and there are limited numbers of potential providers vigorously competing against each other.

After two disastrous and disruptive tender processes in a row, there are serious questions about the capacity within DSS to run a tender process.

6.7 What would work better

A threshold question is whether a tender process is appropriate given the inevitably high transaction costs, service disruption and the lack of clear benefits to clients. The starting point therefore should be an assessment as to why a new tender round is required — there needs to be a clear rationale.

In saying this, we absolutely accept that the community sector should not be immune from accountability, and it is legitimate to ask whether current providers are delivering what is expected, are adapting to changing needs, or improving their services, or whether there are credible alternative providers. Any tender process however should also:

- include an assessment of past performance;
- be made by decision-makers who have some practical knowledge of the financial counselling sector, including visiting services rather than relying solely on knowledge obtained from behind a desk;
- be based on criteria that could discriminate between services in a meaningful way, such as evidence of how transition issues will be managed;
- include adequate information in the tender documents so that agencies can conduct adequate due diligence on the opportunity;
- be based on realistic funding, including CPI.

7 Raise the rate

Finally, we should not conclude this submission without pointing out that one of the contributing factors to financial hardship is the low levels of Centrelink benefits. The rate of the Newstart Allowance has not been increased in real terms for 24 years. Financial counsellors also report seeing more and more people who are receiving Newstart but in reality are unable to work, but for various reasons have not been able to access the Disability Support Pension (which is paid at a higher rate).

Poverty pushes people into the arms of predatory lenders. The resulting harm obviously affects individuals, but also the community as it results in increases in health and social problems. It is short-sighted to keep benefit payments at such low rates.

Appendix 1

Research into the effectiveness of financial counselling confirms it works

2005: ANZ Qualitative Research

In 2005, ANZ commissioned qualitative research into financial difficulty. In relation to financial counselling the research concluded that:

"For people who saw a financial counsellor, it was unanimously a positive empowering experience for them, albeit at a negative point in their life. In addition, the majority stated it had changed the way they viewed their finances and changed their financial behaviour."[11]

2007: Consumer Affairs Victoria—randomly selected in-depth interviews

In 2007, the Consumer Affairs Victoria commissioned research as part of its review into the funding for financial counselling.[12] This involved 30 in-depth client interviews, randomly selected from files. Clients reported relief from stress and the pressure of their immediate financial situation. Arrangements between clients and creditors were negotiated in all cases. A significant number of clients maintained their financial stability.

2012: Swinburne University—Client Survey

In 2012, Swinburne University surveyed 225 clients who had accessed the Salvation Army's MoneyCare service.[13] Survey respondents indicated that as a result of financial counselling:

- 66% said their financial difficulties had been resolved
- 75% said they were better able to prioritise debt
- 74% said the advice had helped them avoid legal action
- 53% had avoided bankruptcy
- 74% were better able to budget
- 73% were able to access creditors' hardship programs

11 ANZ Bank, *Understanding Personal Debt and Financial Difficulty in Australia*, November 2005, p 17.
12 bluemoon research + planning Pty Ltd (2007) *Financial Counselling Program Research Report*, Victoria: Consumer Affairs Department.
13 Nicola Brackertz, "*I Wish I'd Known Sooner" The Impact of Financial Counselling on Debt Resolution and Personal Wellbeing*", Swinburne University, 2012.

The research also demonstrated a link between early access to financial counselling and resolution of financial difficulties - people who sought financial counselling sooner were statistically more likely to report that their financial difficulties had been resolved (72%).

Financial counselling also provided broader social benefits:

- 51% of respondents indicated that their housing situation was more secure; and
- 45% of respondents indicated that their relationships with family and friends and their children (46%) had improved.

2014: Adelaide University—Cost-Benefit Analysis

A cost-benefit analysis of financial counselling services funded by the Wyatt Trust in South Australia, found that every $1 invested provides a $5 return. The research "*Paying it Forward*" was undertaken by the Australian Workplace Innovation and Social Research Centre at Adelaide University.

The report showed that:

- 46% of clients were on incomes of less than $20,000 per annum;
- 82% of clients had experienced at least one financial crisis leading, most commonly related to credit card or store card debts (42%) and/or utility debts (40 %). 55% had 2 or more financial crises.
- 86% of clients had experienced at least one personal crisis in the last year, with one-third of these related to housing issues (31 %). 55% had at least two personal crises. Personal crises or those of family members can increase the impact of financial issues.

The researchers noted that the cost-benefit analysis did not include other benefits which are more difficult to quantify, such as improvements in financial literacy, stabilised housing or avoidance of legal action. In other words, the $1:$5 cost benefit is an understated and conservative measure of the benefit of financial counselling. For example, financial counselling clients often report improvements in health. The average cost of a general hospital admission in Australia is $5,205 per day.[14]

14 Productivity Commission http://www.pc.gov.au/__data/assets/pdf_file/0003/132339/rogs-2014-volumee-chapter10.pdf.