Pre Budget Submission to the Federal Government

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Budget Policy Division
The Treasury
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Financial Counselling Australia (FCA) is the peak body for financial counsellors in Australia.

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About Financial Counselling

Financial counsellors assist consumers in financial difficulty. They provide information, support and advocacy to help consumers deal with their immediate financial situation and minimise the risk of future financial problems. The majority of financial counsellors work in community organisations, although some are employed by government. Their services are free, confidential and independent.

Financial Counselling Australia

FCA is the peak body for financial counsellors in Australia. FCA's member groups are the eight State and Territory financial counselling associations.

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1 BUDGET PRIORITY

Recommendation	Amount
General Financial Counselling	
1. Reinstate the funding cuts to financial counselling services that came into effect in July 2015 and January 2016. We estimate that funding was reduced by $8 million for generalist financial counselling services and $11 million for services in income-managed locations.	$19 million
2. Invest an additional $47 million per annum into financial counselling to meet demand for services.	$47 million
Specialist Gambling Financial Counselling	
3. Continue funding for specialist problem gambling services. This funding currently expires at 30th June 2016.	$6.2 million
4. Fund an additional 25 positions to enable national coverage for specialist gambling financial counsellors	$3.0 million
5. Fund an additional 10 specialist gambling financial counselling positions in Indigenous communities – the greatest need is in the NT and outback WA.	$2.0 million
Addressing Funding Issues in the Long-Term	
6. Introduce an industry levy to provide additional funding for financial counselling. The levy would be paid by those industries that benefit from financial counselling – banks, credit unions, telcos, utilities, insurance companies and debt collectors. Financial counselling/debt advice services in the United Kingdom are funded through a levy on financial services providers and this recommendation is based on this model.	Nil
7. The Federal and State Governments enter into a National Partnership Agreement for the funding of financial counselling. This would provide certainty to the sector about the continuation of existing funding from governments.	NIl

2 WHY IT MAKES SENSE TO FUND FINANCIAL COUNSELLING

Evaluations of financial counselling show that it works and saves the Government money. Yet demand for financial counselling exceeds supply with too many people struggling with financial stress unable to access financial counselling services.

The appendices to this submission have more information about financial counselling:

- Appendix 1 – How Big is the Problem of Financial Difficulty
- Appendix 2 – Financial Counselling is Embedded in the Service Delivery System
- Appendix 3 – How Does a Financial Counsellor Help?

2.1 Financial Counselling is a Sensible Investment for Government

In 2012, Swinburne University surveyed 225 clients who had accessed the Salvation Army's MoneyCare service.[1] 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

As people are assisted to resolve their issues by managing their debts and avoid insolvency, creditors avoid writing off bad debts and losing clients.

In 2014, research undertaken by the Australian Workplace Innovation and Social Research Centre at Adelaide University, found that every $1 invested in financial counselling provides a $5 return. Four in five clients had experienced at least one financial crisis. This was most commonly related to credit card or store card debts (42%) and/or utility debts (40%).

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

The researchers noted that the cost-benefit analysis did not include other benefits that 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.[2]

2.2 Demand for Financial Counselling Exceeds Supply

Demand for financial counselling services exceeds supply. Face-to-face services commonly have long waiting lists of between two and four weeks - and often waiting lists themselves are full.[3] Around one third of calls to the national 1800 phone service are from non-unique numbers, which suggests the caller has not got through the first time they tried, or they need more assistance. The Australian Social Inclusion Board estimated that 2.5 million people - 13% of the population - live in households of high financial stress, and yet there is just one financial counsellor for every 2,600 people in these circumstances. The demand for more financial counsellors exists, and nearly a third of financial counsellors have indicated they would like to work more hours if they were available.

We estimate that financial counsellors assisted around 140,000 clients last year with face-to-face advice. Calls to the 1800 National Financial Counselling Helpline, which provides phone-based advice across Australia, are steadily increasing. During 2014-15, 138,337 calls were made to the Helpline by Australians in financial difficulty.[4] As shown in Figure 1 below, call volumes have been increasing since the national helpline was set up a few years ago – for example there was a 40% increase between 2012-13 and 2013-14. All indications are that the service is now at capacity.

[2] *Paying it forward: Cost benefit analysis of The Wyatt Trust funded financial counselling services,* Adelaide: Australian Workplace Innovation and Social Research Centre, The University of Adelaide, 2014.

[3] Waiting lists vary by agency. Services will triage appointments, for example prioritising clients who are at risk of losing assets or becoming homeless. However there is a limit on how long people are able to wait. For this reason, agencies tend to close their books at a defined cut off point, say two or three weeks.

[4] There will be some duplication of clients between the face to face and telephone services; around one third of clients contacting the telephone services are referred for to face appointments but not all will take up the referral.

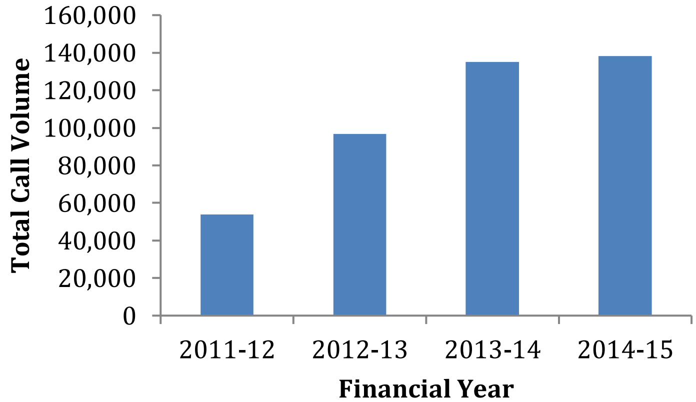

Figure 1 – Number of calls to the national phone financial counselling helpline by year

3 WHAT FUNDING IS NEEDED

3.1 Generalist Financial Counselling

Reinstate Funding Cuts

Funding cuts for financial counselling services in the majority of Australia took effect from 1st July 2015 (announced in December 2014 MYEFO). Funding cuts for services where income management is in place - Northern Territory, Shepparton (Vic), Bankstown (NSW), Playford, APY Lands and Ceduna (SA), Logan (Qld), outback WA and parts of Perth - took effect from 1st January 2016.

The loss of this funding has clearly resulted in a significant reduction in services and should be reversed.

Recommendation: Reinstate Funding

Reinstate the funding cuts to financial counselling services that came into effect in July 2015 and January 2016. We estimate that funding was reduced by $8 million for generalist financial counselling services and $11 million for services in income-managed locations.

Additional Funding to Meet Demand

There are 2.5 million Australians living in households of high financial stress. Working on having one financial counsellor available for every 2,000 people in financial difficulty, we need a workforce of 1,250 people. Cost of a FTE is about $100K, so this equates to funding of $125 million per annum. Of this, about 50% would be a fair responsibility for the Federal Government i.e. $62 million. Current funding is $15 million.

Recommendation: Additional Funding to Meet Demand

Invest an additional $47 million per annum into financial counselling to meet demand for services.

3.2 Funding for Specialist Problem Gambling Financial Counsellors

Background

The Federal Government provided funding of $6.2 million per annum for 50 specialist problem gambling financial counsellors in 2012. The funding was part of the package of reforms introduced primarily to respond to the harm from poker machines. Gambling financial counselling is a specialist field and financial counsellors in this role undertake specific training. <u>This funding finishes at 30th June 2016.</u>

Understanding how gambling financial counselling is different from generalist financial counselling.

Gambling financial counselling is difficult work. Clients may not initially disclose all their debts and losses. There is often deep shame, or a well-developed pattern of hiding the extent of any gambling. Spouses may have walked out or are threatening to leave with the children. Debt collectors are chasing the family. Financial counsellors contact each creditor, and come up with a debt management plan. A key objective is often saving the house/housing and 'saving the person', as some clients are suicidal. Once there is a financial plan, the client typically has the headspace to address their underlying gambling addiction with a psychiatrist or therapeutic gambling counsellor.

In regular financial counselling, the worker may help the client to find extra money to assist the person to pay their debts. However with gambling financial counselling, the help measures are often turned upside down - to 'lock away' the money/credit cards, so the client is protected from any "freed up funds" being used for gambling. Often spouses need help to safeguard the family home from being claimed by creditors or being used to secure additional loan funds by the gambler.

The rise in online gambling is impacting on clients needing specialist help

FCA documented the devastating harm that financial counsellors were seeing in their casework in our August 2015 report, *Duds, Mugs & the A-list – the Impact of Uncontrolled Sports Betting.*[5] Online betting and problem gambling amongst a new male demographic is rising. There is no single income nor education demographic for online betting – anyone in any suburb can become a problem gambler.

[5] Available from: http://www.financialcounsellingaustralia.org.au/getattachment/Corporate/Home/FINAL-PDF-Duds,-Mugs-and-the-A-List-The-Impact-of-Uncontrolled-Sports-Betting-low-res.pdf

The issues

1. Funding for the specialist gambling financial counsellors ends on 30th June 2016. If funding is discontinued, the sector will lose these experienced and highly trained people. Financial counsellors cannot practice privately – charging for services is prohibited under the ASIC licensing exemption applying to the profession.
2. Each time we have a late funding decision, agencies suffer from staff attrition in the lead-up. Even if funding is retained, many of the most experienced workers will have exited and the sector loses significant expertise as well as investments in training.
3. There is a strong correlation between family violence and problem gambling. Without funding for gambling funding, more families will continue to struggle. Often when a gambler is not ready to admit to being a problem gambler, s/he will come for help with debts, and this is a first step to dealing with the underlying gambling issues.
4. Gamblers who do not receive help with managing their debts, end up costing the taxpayer and the business community. Many end up as welfare recipients having exhausted their redundancy payouts, superannuation or savings. The cost of family break-ups is significant. The work of gambling financial counsellors reduces the societal and government long-term cost of gambling losses. Funding these harm minimisation positions saves the government money – one person who gets help and doesn't end up in prison for gambling related crime, offsets a single FTE salary for a financial counsellor.
5. If the funding is lost, clients will move to generalist financial counsellors. This will blow out waiting lists for the generalist financial counsellors even more – meaning more people are turned away or helped later, when their financial problems have grown in magnitude.
6. With the rise in gambling, largely caused by the proliferation of online gambling opportunities, there is a growing need for more gambling financial counsellors. There are currently 50 FTEs in Australia – notionally covering only 50/150 electorates nationally.

Recommendation: Continue funding for specialist gambling financial counselling positions

We recommend that funding for the 50 specialist gambling financial counselling positions be continued, plus 42 new positions are funded in other areas of need.

1. To retain existing funding of $6.2 million per annum for the current 50 specialist problem gambling financial counselling positions, indexed to CPI from its 2012 base.
2. To increase the funding to create a <u>minimum</u> of 25 additional positions, to cater for increased national coverage.
3. To fund 10 new positions for indigenous communities – the greatest need is in the NT and outback WA
4. To provide ongoing funding, with a minimum of five year contract terms so the sector can retain existing specialist expertise, and have some stability in this professional workforce.

4 LONGER TERM FUNDING SOLUTIONS

4.1 An Industry Levy is a Viable, Complementary Funding Mechanism

At present, funding for financial counselling is through the normal budget appropriation processes and then a grant-making function to community agencies. An alternative and viable funding mechanism would be through a levy on the industries that benefit when financial counsellors assist their customers to overcome financial difficulty: financial services providers, telecommunications companies, utility companies, insurance companies and the debt collection industry.

The model for such an approach is the United Kingdom (UK), where financial counselling and financial literacy initiatives[6] are funded through a levy on financial services providers. The levy is collected by the Financial Conduct Authority (the equivalent of ASIC) and also funds that organisation. The levy funding debt advice is administered by the Money Advice Service. In 2013-14, MAS allocated more than £30 million pounds to community-based debt advice services.[7]

The benefits of a model such as this are the direct link between the funding source (the financial services industry) and the use of the funding (customers of that industry in financial difficulty). The gap in the UK model however is that funding is only provided by financial services providers, and not other industries (such as utilities and telecommunications) that also have customers in financial hardship, that would benefit from debt advice. Another clear benefit of this funding model is that it would also provide a more consistent and reliable funding source for financial counselling.

The final report of the Financial Systems Inquiry, recently provided to the Government, recommended an industry-funding model for the Australian Securities and Investments Commission. Australia looks likely to pick up part of the UK model following the recent Federal Government consultation about funding for ASIC through a "user pays" system (which was also recommended by the Financial Systems Inquiry). [8] It would make sense to extend this system to also fund financial counselling in Australia. The precedent in the UK provides a sensible and straightforward approach to funding a key community service.

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[6] The more common terms in the UK are "debt advice and financial capability" rather than "financial counselling and financial literacy" but they essentially mean the same thing.

[7] Money Advice Service, 'Annual Review, Directors Report and Financial Statements for the year ended 31 March 2014' , page 37.

[8] Financial System Inquiry, Final Report, November 2014, Recommendation 29, p 250.

We note again that the UK levy funds not just regulatory activity, but also debt advice and financial literacy – a powerful combination. The UK model also supports struggling small business owners with debt advice.

Recommendation: An Industry (User Pays) Levy

That the Federal Government introduce an industry levy to provide additional funding for financial counselling. The levy would be paid by those industries that benefit from financial counselling – banks, credit unions, telcos, utilities, insurance companies and debt collectors.

4.2 A National Partnership Agreement

One of the reasons that funding for financial counselling is so problematic is that there is no agreed approach to funding between the Federal and State Governments. In contrast, National Partnership Agreements are well accepted in other areas of shared Federal Government/State Government responsibility. Examples include the National Disability Insurance Scheme and the funding for legal aid and community legal centres. There is no reason why a similar approach would not work for financial counselling.

The advantage of a NPA would also be the opportunity to think strategically about the future of financial counselling. The NPA for example, could also address issues such as the targeting of services, service delivery models (face-to-face and phone), quality standards and coordination.

Recommendation: A National Partnership Agreement

That the Federal Government lead the development of a National Partnership Agreement between the Federal and State Governments in relation to the funding for financial counselling.

APPENDIX 1 - FINANCIAL DIFFICULTY: HOW BIG IS THE PROBLEM?

Causes of Financial Difficulty

Financial counsellors report that the most common cause of financial difficulty is a change of circumstances in a person's life: unemployment, illness or relationship breakdown. Many clients are also on very low incomes, such as the NewStart allowance and simply find it hard to make ends meet. Small business failure, exploitation or poor advice (such as from a financial planner) may also be factors that lead to financial difficulty for some clients.

Financial counsellors observe that financial difficulty can affect just about everyone. This is reinforced by data from the Australian Bureau of Statistics (ABS) in the General Social Survey.[9] One of the factors measured in the survey is the prevalence in the population of "personal stressors". In the most recent survey (2009-10), over 60% of the adult population had experienced at least one personal stressor. Noting that some people will experience more than one stressor - 23% of the adult population had experienced a serious illness, 11% had experienced a divorce or separation,13% had experienced a mental illness, 7% had experienced a serious disability and 15% had been unable to get a job.

Who is Doing it Tough? ABS Data

Some people can manage through a financial crisis because of the support of family and friends, or because they have a financial buffer, such as insurance or savings. They may need additional time or assistance to access support or additional resources, but can ultimately overcome any financial problems. There are however large groups of Australians for whom financial difficulty is ongoing. To use a vernacular Australian term – they are "doing it tough".

The ABS General Social Survey[10] provides an insight into exactly which groups in Australia are most affected by financial stress. Perhaps not surprisingly, the survey shows that one parent households with dependent children experience the highest levels of financial stress. For example, 41% of lone parent households could not raise $2,000 for something important. This contrasted with the 11% of couple households who reported the same situation.

Although some high income households reported financial stressors, not surprisingly low income households in the lowest quintile had the most financial

[9] ABS, 4159.0 General Social Survey: Summary Results, 2010 (released 30/09/2011).
[10] ABS, 4159.0 General Social Survey: Summary Results, 2010 (released 30/09/2011), Table 45.3 Household financial stress indicators, by selected household composition categories, proportion.

stress. For example these households were more likely to report that they had experienced cash flow problems,[11] such as not paying a bill on time, going without a meal, or not being able to heat their home. They were also more likely to have engaged in a dissaving action[12] such as increasing credit card debt.

Sole parent families however were more likely to follow a budget (58.5%) compared to couple families (49.4%), but the sole parent families were much less able to take other "financial resilience actions" such as regular saving, making voluntary superannuation contributions or paying more than the minimum required on credit card repayments.

Other Relevant Data

Other relevant data sources include research from:

- the Australian Council of Social Service (ACOSS) that estimated that 2.2 million people (12.8% of the population) lived below the poverty line;[13]
- the Australian Social Inclusion Board that estimated that 2.5 million people (13% of the population) live in households of high financial stress;[14]
- credit reporting bureau, Veda which says that about one in five people are struggling to make debt repayments. Disturbingly, about a quarter of this group say they have no option but to borrow to meet expenses.[15]

There are many other ways to view financial hardship. The ACOSS research cited above notes that poverty cannot be defined with a single profile. For example, while the ABS data cited above show that sole parent families are more likely to experience financial stress compared with two parent families, there are numerically many more two parent families in financial stress, given that two parent families are more common that one parent families.

The risk of poverty can be gauged by looking at the income source of a household. People whose main source of income is social security benefits are approximately three times as likely to be at risk of poverty compared to "all people"[16] based on

[11] Examples in the survey were: being unable to pay electricity or gas or telephone bills on time; unable to pay mortgage or rent payments on time; unable to pay car registration or insurance on time; unable to make the minimum payment on a credit card; pawned or sold something, went without meals, unable to heat home, sought assistance from friends, family or welfare/community agencies.

[12] Examples include: reducing home loan repayments; drawing on savings, increasing the balance on a credit card by $1,000 or more, taking out a personal loan, selling assets.

[13] Australian Council of Social Service, "Poverty in Australia", Paper No 194, 2012.

[14] Australian Social Inclusion Board, "Social Inclusion in Australia: How Australia is Faring", 2010.

[15] Veda Advantage, Galaxy Research, 2012.

[16] Australian Council of Social Service, August 2011,'Poverty in Australia 2012', 26.

poverty being 50% of median income. When analysed by gender, women face a significantly higher risk of poverty than men, with 53.8% of females and 46.2% of men being below the poverty line. This reflects women receiving lower wages and employment opportunities, and being more likely to be in unpaid caring roles.[17] People born in non-English speaking countries are also at greater risk of poverty than people born in Australia.[18]

Although those on lower incomes are at greater risk of poverty and financial stress, those on higher incomes are not immune from financial difficulty. Research from The Australia Institute found that while low income earners were, not surprisingly, more likely to experience financial difficulty in the previous 12 months, 15% of high income households also did so.[19]

These findings are also consistent with a segmentation analysis undertaken for the Department of Social Services[20] based on the ANZ Survey of Adult Financial Literacy.[21] This analysis divided the Australian population into five groups based on money management attitudes and behaviours. Group 5 (12.5% of the population) was the most financial vulnerable and had low levels of income and assets, relatively low financial literacy and relatively high levels of debt. Group 1 however (18.2% of the population), despite high levels of income and assets, was also struggling with high levels of debt. Although this group had above average financial literacy, they were also above average users of pawnbrokers, payday lenders and debt rescue companies.

[17] Australian Council of Social Service, August 2011,'Poverty in Australia 2012', 15.
[18] Australian Council of Social Service, August 2011,'Poverty in Australia 2012', 21.
[19] The Australia Institute, *Evidence versus Emotion: How do we really make financial decisions*, December 2010.
[20] Previously the Department of Families, Housing, Community Services and Indigenous Affairs when the research was undertaken.
[21] Australian Government, Department of Families, Housing, Community Services and Indigenous Affairs, Occasional Paper No. 36, *Approaches to Personal Money Management: A population segmentation based on data from the ANZ Survey of Adult Financial Literacy in Australia (2008),* The Social Research Centre and Data Analysis Australia, 2011.

APPENDIX 2 - FINANCIAL COUNSELLING IS EMBEDDED IN THE SERVICE DELIVERY SYSTEM

People in financial difficulty can contact a financial counsellor by ringing the national phone number 1800 007 007 or their nearest face-to-face service. There is a “Find a Financial Counsellor” map on the ASIC MoneySmart website as well as the FCA website.

The national phone financial counselling helpline is a relatively new service and was established just a few years ago. The service has enabled financial counselling to reach more people in financial difficulty and at an earlier stage and has dramatically increased access. Phone financial counselling and face-to-face financial counselling together provide an integrated service delivery model.

Financial counselling is a vital part of the service delivery system. FCA’s 2014 report “Click Here: Who is Referring to Financial Counselling Services” found that All of the major banks, a number of government departments, finance industry peak bodies and dispute resolution schemes include information on their websites explaining how people can access financial counselling. The national telephone financial counselling helpline – 1800 007 007 - was the primary point of access. Examples of organisations with information and contact details for financial counselling on their websites include:

- MoneySmart – ASIC’s financial literacy website, which includes a “Find a Financial Counsellor” search tool;
- www.disasterassist.gov.au, the Government’s portal to help people affected by natural disasters;
- Australian Financial Security Authority – AFSA administers personal insolvencies;
- Australian Bankers Association – www.doingittough.info The ABA is the banking industry peak body. This website is targeted toward consumers;
- Insurance Council of Australia – www.understandinsurance.com.au The ICA is the insurance industry peak body. This website is targeted toward consumers;
- Financial Ombudsman Service, Telecommunications Industry Ombudsman and the various energy and water ombudsman schemes.

The national phone number 1800 007 007 is a mandatory inclusion on a number of prescribed notices under the National Credit Code.[22]

[22] For example, warning notices that must be displayed by payday lenders on websites and in shopfronts, credit default notices.

Financial counsellors also work proactively with industry to improve responses to consumers who are in financial hardship or who are vulnerable. These industries include banks, utilities, and telcos. Financial counsellors also provide significant input at times to government and regulator advisory bodies, such as the ACCC, ASIC, the AER and State agencies.

The importance of free and independent financial counselling was recognised by the Parliament in 2013, with an amendment to the *National Consumer Credit Protection Act 2009* providing legislative protection to the term "financial counsellor" and "financial counselling".[23]

[23] Section 160C of the NCCP Act.

APPENDIX 3 - HOW DOES A FINANCIAL COUNSELLOR HELP?

Financial counsellors assist people struggling to pay their debts or who have credit-related issues. They provide information, support and advocacy to help people overcome their financial difficulty. Financial counsellors work in non-profit community organisations and their services are free, confidential and independent.

A financial counsellor helps a client get a clear picture of their financial circumstances. They will assess whether any debts are legally owed, if the amount owing is correct and which debts are priorities. For example, rent and utilities are usually priority debts.[24] Often, they will work with a client to develop or refine a money plan. The ultimate aim is to help a client understand their options, and the pros and cons of each of them. Financial counsellors for example might explain the debt collection process, hardship variations, how to access concessions, the implications of bankruptcy or how the credit reporting system works. They often work closely with consumer credit lawyers, particularly where there are assets at risk. For some clients, the financial counsellors will also advocate on the client's behalf with creditors.

It is also important to understand the "counselling" side of the role. Financial difficulty is incredibly stressful for people and has impacts on the quality of relationships as well as physical and mental health. Clients can often present, either face-to-face, or on the telephone, in considerable emotional distress. It is not uncommon to see clients who are contemplating suicide. The first task for a financial counsellor is often to address these issues.

Financial counsellors have specific knowledge about the credit, bankruptcy and debt collection laws, concession frameworks and industry hardship practices. They are also trained in negotiation and counselling.

Finally, financial counsellors also work within a social justice framework, recognising that marketplace practices often have detrimental impacts on their clients. A good example of this is the systematic targeting of remote Indigenous communities by unscrupulous door-to-door traders. There are a number of examples of financial counselling organisations working with Australia's regulators, such as the Australian Securities and Investments Commission and the Australian Competition and Consumer Commission to alert them to exploitative practices, so that these regulators can take

[24] This may not always be the case. An example might be a client who needs to repay a car loan so they can drive to work and maintain their employment.

enforcement action.